Annual Report & Financial Statements

for year ended 31 May 2020

1pm PLC

PLC

Contents

Company Information

For the year ended 31 May 2020

Non-Executive Directors	J D Newman (Chairman) R Russell J P Telling
Directors	R I Smith (Chief Executive Officer) J M A Roberts (Chief Financial Officer)
Company Secretary	J Bodey
Registered Office	St James House The Square Lower Bristol Road Bath BA2 3BH
Registered Number	05845866 (England and Wales)
Independent Auditors	Moore, Bath
Nominated Advisor and Broker	Cenkos Securities plc, London
Principal Solicitors	Simmons & Simmons, Bristol
Financial Public Relations	Walbrook PR Ltd, London
Registrars	Neville Registrars Ltd, Halesowen
Principal Bankers	NatWest plc, London

1pm plc ordinary shares are listed on the Alternative Investment Market of the London Stock Exchange

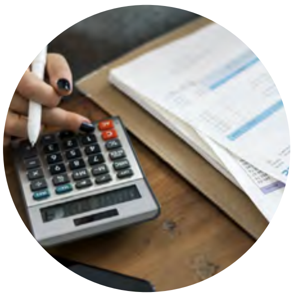
1pm at a glance

We focus on providing the best solution for our clients, because we put them at the heart of everything we do. Our financial solutions inspire confidence and enable our clients to thrive and prosper.

Delivering a range of financial solutions to boost British business

Asset Finance

Financing vital equipment to support business growth

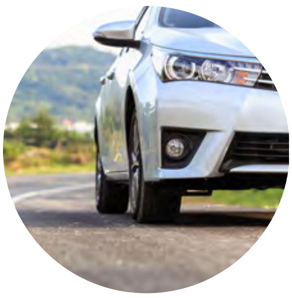


Invoice Finance

Improving cash flow to give businesses the freedom to unlock additional working capital

Loan Finance

Providing commercial and property loans to make businesses come to life



Vehicle Finance

Delivering fast and competitive funding to keep businesses on the road

Our key achievements

Providing
£123m
of funding to UK businesses at 31 May 2020

Revenue over
£29m

Originated
£147m
of new funding deals during the year

Supporting some
20,000
SMEs nationwide

£3m
profit before tax and exceptional items

179
employees across 6 UK sites

Over
£55m
of equity on the balance sheet

Award winning

LeasingWorld SERVICE EXCELLENCE AWARDS 2019 Shortlisted
BEST USE OF TECHNOLOGY FOR SERVICE EXCELLENCE

WINNER 2018
ASSET FINANCE INTERMEDIARY
LEASINGLIFE

INTERNATIONAL ASSET FINANCE NETWORK AWARDS
HIGHLY COMMENDED 2019
UK AND EUROPE SME FINANCE PROVIDER OF THE YEAR

Our Leadership Team

1pm is led by a dedicated and experienced team who form the Operating Board. This diverse body of 10 senior leaders comprises 50% female membership and represents an array of knowledge and expertise. 1pm champion leadership at all levels, with the age range of the Operating Board spanning 40 years. Working together, their knowledge and expertise inspire innovation and integrity, so that 1pm can make a difference for all our stakeholders.

Ian Smith
Chief Executive Officer

James Roberts
Chief Financial Officer

Jennifer Bodey
Head of Compliance and Company Secretary

Lorraine Neyland
Head of Risk

David Jones
Head of IT

Holly Mapstone
Head of HR

Phil Chesham
Head of Invoice Finance (North)

Tansy Cunningham
Head of Invoice Finance (South)

Carol Roberts
Head of Asset

Alun Winter
Head of Loans

Chairman's Statement

Chairman's Statement

For the year ended 31 May 2020

Performance and dividend

The coronavirus pandemic has brought turmoil and uncertainty to economies worldwide and the impact resulted in a significant downturn in our business activities in the final quarter of our financial year. Despite this, it is pleasing to report that we maintained a seamless service throughout, continued to be "open for business" and successfully moved our staff from six sites to remote working within a working week. This reflects the commitment and enthusiasm of all our staff around the UK and the Board is indebted to them for the "can do" attitude that they have shown.

The effect of the pandemic in the last quarter of our financial year has interrupted the Group's consistent growth since 2014 in revenue, profit before tax and earnings per share. However, taking into account the last quarter, the trading performance for the whole year was satisfactory. The Group's revenue was £29.2m (2019: £31.8m) and Group profit before tax and exceptional items was £3.0m (2019: £8.1m). This result was after making an additional provision of £2.1m for potential future credit risk relating to the effects of the pandemic.

Fully diluted earnings per share, taking account of shares issued relating to the successful achievement of acquisition earn-out targets, were 1.74p (2019: 6.61p).

The onset of the pandemic saw our Senior Management Team having a clear focus on bringing about the significant changes necessary for our business to continue to support our customers, many of whom were experiencing immediate financial hardship as a result of lockdown.

The strength of the Group's balance sheet and the additional financial resources referred to in the Chief Financial Officer's Report on page 14 has enabled the Group to grant forbearance on leases and loans to those customers with the most pressing financial difficulties. Each case was dealt with individually and with compassion and understanding and I am proud of what our staff achieved in supporting our customers in what were, and continue to be, exceedingly difficult circumstances.

A significant and positive event for our business was that in May 2020 the Group received approval as an accredited lending partner under the Government's Coronavirus Business Interruption Scheme ("CBILS") initiative. This has enabled the Group to expand its lending in the form of leases and loans to SME customers across the UK with the benefit for the Group of a government-backed guarantee for the loan repayments due from the borrower. The Board is confident that becoming an accredited lender will have the potential to make a significant impact on the number of new lending agreements. At the end of August 2020, the amount of funding advanced to our customers under the terms of CBILS totalled approximately £4m.

The Group's trading update on 23rd June 2020 referred to the deferment of the payment of the interim dividend that was due to be paid on 12 May 2020 and also to the position of any final dividend for the financial year ended 31 May 2020. The uncertainty in business conditions referred to in the update remain with us and the Board, in exercising a prudent approach, has decided to continue with the deferment of the interim dividend and any recommendation in respect of a final dividend until January 2021 when the trading results for the first half of the current financial year will be known.

Our strategy

The Group Strategic Report on page 18 sets out progress against the Group's goals and objectives. The focus of the strategy is for the Group to continue to grow as a well-diversified and risk-mitigated alternative finance provider, recognised as having a comprehensive range of business finance products to offer to an expanding base of UK customers.

The balancing and management of risk is an important responsibility for the Board at all times but particularly so where there exists considerable economic uncertainty. This has never been more acutely felt than in the present Covid-19 environment and it is likely that businesses, governments and wider society will have to contend with the economic consequences for the foreseeable future.

However, the Group's business model, in offering multi-product financial services to a wide range of business sectors, has continued to deliver a high degree of commercial resilience. We remain confident that this resilience and flexibility within the business model will ensure that the Group can balance its risk exposure in a prudent manner while maintaining competitive levels of customer service.

Governance and culture

The business operates in a regulated environment and a key responsibility for the Board is to ensure that strong and effective governance operates throughout the Group.

The Board has four sub-committees, namely Audit, Remuneration, Nominations and Governance and Risk, with membership comprising either of only, or a majority of, non-executive directors. The committees meet on a regular basis and their effectiveness in meeting their responsibilities is assessed annually by the Board.

The Board will continue to focus on increasing diversity in all its forms and it is pleasing to note that women now represent 50% of the Group's senior management positions. This is an important consideration for the Group where women are almost 60% of our total workforce.

There is a clear emphasis within the Group on maintaining a corporate culture that adheres to the core values of being "trusted, flexible, fair and personal". These values underpin everything that we do across the business and are key in ensuring responsible attitudes and behaviours are foremost in every member of our team. It is heartening that these qualities are being so successfully demonstrated every day by our staff in facing the difficulties of the Covid-19 pandemic. Further details can be found in the Group Culture and Governance Report on page 23.

Our people

During the year the integration of acquired businesses neared completion and this was accompanied by a change in the management structure. The role of Chief Operating Officer was combined with that of the CEO and in April 2020 Ed Rimmer, our COO, stepped down as a Group director. Ed's contribution to our business operations is greatly appreciated by the Board and we wish him every success in the future.

The enormous dedication shown by our colleagues throughout the Group in adapting to the new operating structure in the face of the most challenging conditions has been exceptional and on behalf of the Board, I wish to record our sincere thanks and appreciation for their hard work and commitment.

Outlook

In the year ahead, we will focus on ensuring the long-term sustainability of the business in meeting the challenges and opportunities of a Covid-19 environment. The strength of the business model and the support of colleagues at every level who share the Board's vision and determination, give us confidence in the Group's ability to withstand the difficulties created by Covid-19. However, the potential impact in the Autumn of the withdrawal of the Government's initiatives to protect jobs and the effect this may have on the economy leaves the Board in a position where providing guidance on the Group's financial performance for the current year would be inappropriate.

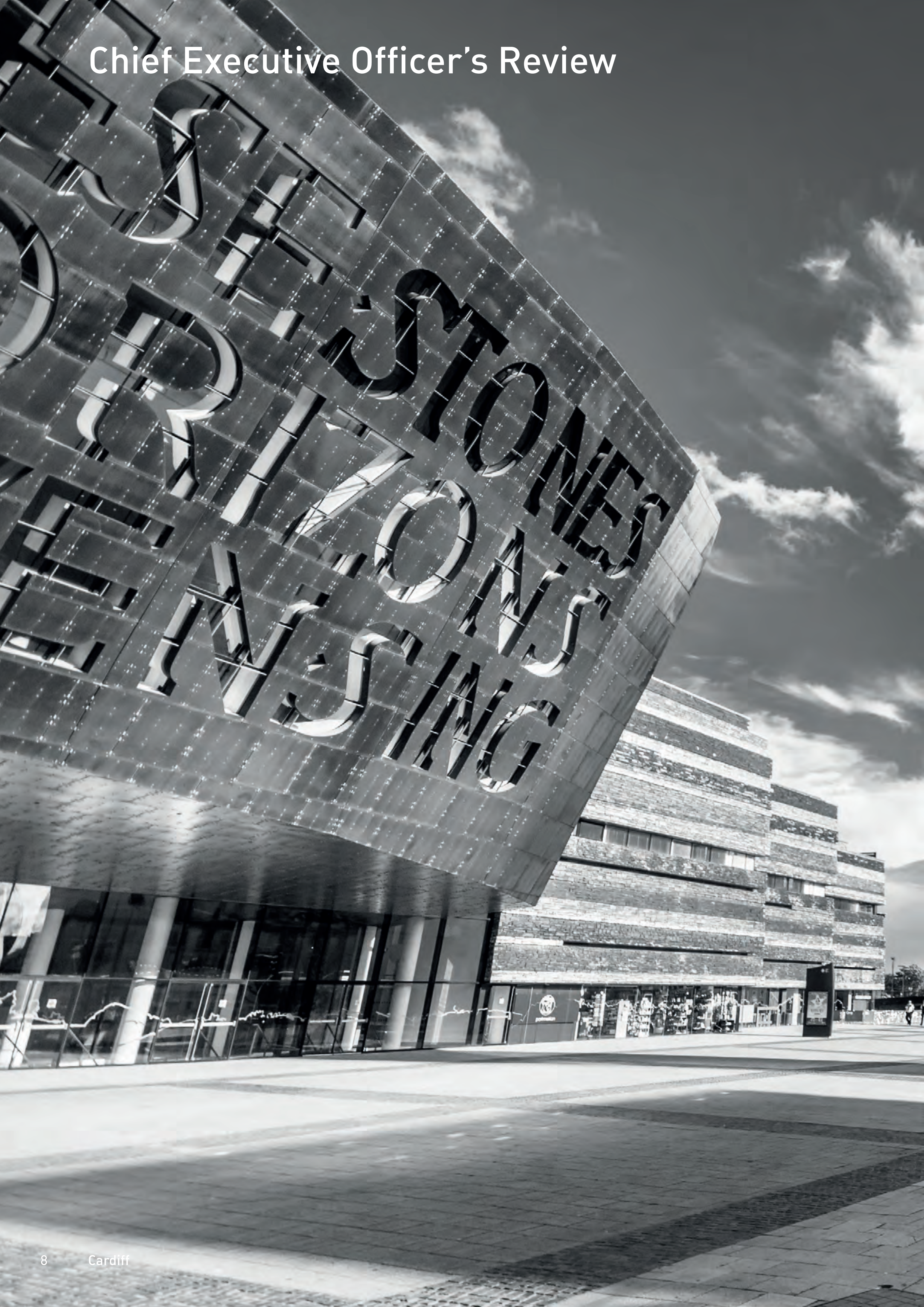
Nevertheless, it is encouraging that in the first quarter of the current financial year there has been an improving trend in business activity. The strength of our financial position and funding resources, the quality of our people and the range of our product offering give the Board confidence that we will be in a robust position to take full advantage of the opportunities that our markets will offer as the economy recovers from the effects of the pandemic.

In these most difficult of times may I take the opportunity to wish all our stakeholders and their families a safe and healthy future.

John Newman
Chairman

22 September 2020

Chief Executive Officer's Review



Chief Executive Officer's Review

For the year ended 31 May 2020

Introduction

The 1pm group is a multi-product, speciality finance business providing funding for UK SMEs as a lender and arranging funding for both UK SMEs and consumers as a broker. This hybrid lending and broking model enables the Group to optimally manage credit risk, capital allocation, revenues and customer service through changing market and economic conditions. The financial results for the Group for the year ended 31 May 2020 consolidate the results of the parent company, 1pm plc, plus each of the trading entities that form the Group's product divisions and group functions.

The Group comprises four product divisions, namely Asset Finance, Vehicle Finance, Loan Finance and Invoice Finance. In this year's financial statements, for the first time, a segmental analysis is presented in Note 3 to show the trading results, together with comparative figures, of each of these product divisions. The divisions are supported by central group functions, namely Risk, Compliance, Finance, IT, Human Resources and Marketing.

Following a six-year period of sustained organic and inorganic growth, during which the recent "buy and build" phase of the Group's strategic expansion was successfully executed, the final quarter of the financial year ended on 31 May 2020, saw another successful year of trading interrupted by the impact of the Covid-19 pandemic. Despite this interruption, the financial performance and results for the financial year as a whole were satisfactory, demonstrating the Group's resilience.

The results achieved are due to the commitment, hard work and sense of purpose consistently shown by all colleagues in the Group, both during 'normal' working and trading conditions and in the 'crisis-management mode' called for by Covid-19. It is a privilege to lead such a talented management team and such an enthusiastic group of colleagues, now consisting of 179 personnel and I congratulate and extend my thanks to all fellow employees for delivering this performance in unprecedented circumstances.

Sustainable, robust business model

In addition to the hybrid commercial model of being a lender and a broker, which is important in mitigating risk, the Group has maintained sound operational principles designed to develop a sustainable, robust business. These principles include spread, security and margin as core features of the Group's operating policies.

Spread is maintained in all of the Group's lending activities, across new business introduction channels, asset types and categories, lending products, SME business sectors, geography, deal size and deal quality. The Group's lending portfolios comprise multiple asset, loan and invoice finance arrangements, with no major concentrations. Spread and diversity are also maintained in respect of the Group's own borrowing and funding facilities, which are sourced from a range of wholesale funding providers and high net worth investors.

Security is always taken, ranging from company debentures, charges on property and assets, title to assets and, for lower-value lending, personal guarantees from directors and proprietors. Where receivables become impaired, the Group has a strong track record of recovering value through its security arrangements, in particular following up on personal guarantees, which has proven to be a successful recovery instrument for lower-value exposures.

Margin is maintained through appropriate risk pricing for the type of lending entered into and a continuous focus on the cost of borrowing as the Group scales-up. The blended net interest margin achieved in the year to 31 May 2020 was approximately 12% (2019: 12%). The Board's policy is not to reduce prices or relax credit rules in the face of competition in order to chase top-line growth, but rather to maintain interest rates charged and credit quality.

Further important features of the Group's operating policies are that fixed interest rates are charged for the lending term; interest rates incurred on borrowings drawn down are equally fixed for the term and the Group's policy is, where ever possible, to match the term of borrowings drawn to the term of lending provided.

These core operating policies are supported by underwriting carried out by people as opposed to automated algorithms for credit decisions. Although an essential element of the Group's development continues to be the deployment of greater digital capability, for example to assist with underwriting processes, it is considered essential for the lending markets in which the Group operates that credit decisions are taken by people.

Chief Executive Officer's Review (continued)

For the year ended 31 May 2020

The final core principle is a cautious approach to provisioning. The net write-off rate (the gross value of receivables written-off less recoveries) in the year to 31 May 2020 was approximately 0.9% of the year end gross lending portfolio, a similar level to 2019 and previous years. During the Covid-19 affected fourth quarter of the financial year the write-off rate did not increase significantly, due in part to the forbearance afforded to borrowers and the existence of government-backed financial support for UK businesses. In line with the Board's cautious approach to provisioning, the Board decided, however, to record an additional £2.1m of credit risk provision (more commonly known as bad debt provision) for potential future write-offs arising from the effects of the pandemic. Consequently, the total credit risk provisions carried in the balance sheet at 31 May 2020 amounted to £5.1m, representing 4.8% of the net lending portfolio, compared with £2.4m, representing 1.9% of the net lending portfolio on 31 May 2019.

These factors taken together – the lending and broking model, the focus on spread, security and margin, fixed interest rates, matched term borrowing, human underwriting and a cautious approach to growth and provisioning – all combine to form a sustainable, robust business that is proving to be effective and resilient in these uncertain economic times.

Market positioning and new business origination

The Group is positioned as a provider of all the main finance products that smaller UK SMEs require, namely cash for operations and expansion in the form of assets and vehicles, loans and invoice finance facilities, the latter often replacing the traditional and formerly common-place bank overdraft. For those SME borrowers, the funding required is often for business-critical assets without which a small business would not function and, as such, repayments tend to be prioritised, leading generally to a higher level of 'borrower resilience' in this sector than might otherwise be expected.

The Group's market positioning as a multi-product provider of business-critical finance for UK SMEs has proven effective and demand was steady during the financial year prior to the Covid-19 related lockdown and is steadily increasing again as lockdown measures are eased. New business origination in the year to 31 May 2020 amounted to £147m, a decrease of 9% over the previous financial year, the reduction being totally attributable to the Covid-19 affected fourth quarter.

Of this origination, 37% was funded on balance sheet and 63% was broked-on, compared with 35% and 65% respectively in the prior year. The Group's policy is to not carry residual balance sheet risk in respect of light commercial vehicles and cars and so 100% of all finance deals originated for such assets were broked-on. Excluding vehicle finance origination, 56% of new business was funded on balance sheet and 44% broked-on, compared with 52% and 48% respectively in the prior year.

An operational synergy arising from being a multi-product provider is the opportunity to originate deals from cross-selling among the various trading entities in the Group. Cross-selling continued steadily during the year and approximately £3.7m of deals originated and written during the year were internally generated, compared with £4.8m in the prior year.

Covid-19 impact management

The financial year ended 31 May 2020 was affected like no other year in the Group's history, by the two external factors of a generally subdued economy due to Brexit uncertainty and the significant business impact of the Covid-19 pandemic. The latter called for a crisis management approach consisting of establishing an Incident Management Team, which met weekly to assess the unfolding situation, to take decisive action and to instigate a set of guiding principles by which to operate. Those guiding principles were, firstly, to ensure the health, safety and well-being of all colleagues; secondly, to maintain a seamless service for all customers, borrowers and intermediaries while remote working; thirdly, to support existing borrowers by granting forbearance where required to help them manage their way through the crisis; and, fourthly, to stay "open for business" in order to continue to lend to UK SMEs in need of financial support. It is pleasing to report that the Group has successfully adhered to all these principles throughout the period since lockdown began in March 2020 proving its operational resilience and commercial responsiveness.

Most significantly, the strength of the Group's cash position and balance sheet enabled the Group to grant forbearance to existing borrowers without resorting to making requests for similar forbearance from the Group's wholesale funders, a crucial factor in maintaining the ability to continue to advance new lending. As at 31 August 2020, the Group had granted temporary forbearance of approximately £1.1m to customers in respect of lease and loan agreements with an aggregate value of approximately £30.7m, representing 29% of the Group's receivables.

Although the granting of forbearance represents a temporary shortfall in cash receipts from borrowers, the Group has benefitted from a similar amount of cash inflow from other borrowers settling their obligations early. This is largely as a result of those borrowers receiving government-backed funding, such as through the Bounce Back Loan Scheme and CBILS.

The Group welcomed the introduction of those government-backed schemes and, as noted in the Chairman's Statement, in May 2020 the Group successfully became accredited as a lending partner under CBILS, adding a further significant origination channel to continue to lend to UK SMEs with the benefit of a government-backed guarantee in the event of borrower default.

Significant uncertainty persists in relation to the further impact of Covid-19 on the UK economy when government-backed financial support schemes expire. To manage this uncertainty and the potential effect on the Group's lending portfolio, the Board decided to record a one-off credit risk provision in the fourth quarter of the financial year, as noted above.

The impact of Covid-19 in the fourth quarter of the financial year and managing the potential future effect on the Group's receivables are reflected in the reported financial results set out in more detail below.

Financial results

Total revenue for the year to 31 May 2020 was £29.2m, a decrease of 8% year-on year, the decrease being attributable to the Covid-19 affected fourth quarter. Revenue comprises, firstly, interest and other income (such as facility fees, document fees and asset assurance income) of £23.4m from own-book lending (2019: £25.4m) and, secondly, commission income of £5.8m from broking activities (2019: £6.4m). Interest and other income from lending therefore accounts for 80% and commission income from broking accounts for 20% of total revenues, which is consistent with the prior year.

The business enjoys good visibility of future revenue in that 'unearned income' (i.e. future interest income from 'own-book' deals already written on the Group's balance sheet) as at 31 May 2020 amounted to £15.2m (2019: £17.6m).

The Group's profit before tax and exceptional items for the year ended 31 May 2020 was £3.0m, compared with £8.1m in the prior year, the decrease attributable to the lower revenue generated in the fourth quarter and to the credit risk provision which is anticipated to be one-off. Profit before tax was £2.0m (2019: £7.9m), and profit after tax £1.6m (2019: £6.4m).

At 31 May 2020, there were 88,985,316 shares in issue (2019: 87,596,428). The increase during the year consisted of 1,388,888 shares issued in relation to earn-out arrangements for previous acquisitions. Given these issues of shares, earnings per share were 1.76 pence (2019: 7.30 pence), and on a fully diluted basis were 1.74 pence (2019: 6.61 pence).

At 31 May 2020, the Group's total gross receivables stood at £123m, compared with £142m on 31 May 2019, the reduction attributable principally to trading in the fourth quarter of the year and early settlements towards the year-end. Total borrowing facilities at 31 May 2020 amounted to £175m (2019: £167m), of which £66m was drawn. The lending portfolio and borrowings are commented on in more detail in the Chief Financial Officer's Report on page 14.

Also, at 31 May 2020, consolidated net assets stood at £55.2m (2019: £53.8m), an increase of 3%. The return on capital employed was therefore 3% (2019: 12%) and the return on net tangible assets (excluding goodwill held in the balance sheet) was 6% (2019: 24%).

Cash held at 31 May 2020 was £1.3m. Following the drawing of a five year term loan from the Group's principal bank subsequent to the year-end and the steadily increasing trading activity in the first quarter of the new

Chief Executive Officer's Review (continued)

For the year ended 31 May 2020

financial year, cash held at close of business on 31 August 2020 was £2.3m. The strength of the Group's balance sheet together with its liquidity in the form of available operational debt facilities for lending and cash held, ensure the Group is well-placed to continue to trade successfully as business activity in the UK SME sector increases towards pre-Covid-19 levels.

Operational progress

The year to 31 May 2020 continued the evolution from a collection of individual companies assembled in the buy-and-build phase of expansion, towards a more integrated group, with the transition process essentially completed by the end of the third quarter of the financial year, just prior to the impact of Covid-19. Instrumental in the success of the transition was the contribution of Ed Rimmer in the role of Chief Operating Officer for the Group and I would like to thank him for his central leadership role in delivering the changes. The final two earn-out arrangements that accompanied the buy and build phase of expansion came to a successful conclusion during the year and, in parallel, all plans for management succession have been successfully implemented.

Central to development of the Group has been the further evolution of the four customer-focused product divisions, Asset Finance, Invoice Finance, Loan Finance and Vehicle Finance. In the Asset Finance division, the internal organisation has been migrated to run along business introduction channels, which, even in these Covid-19 affected times, is beginning to increase deal origination and improve customer service. In the Invoice Finance division, an internal project is nearing completion to more closely integrate and align the two separate northern and southern entities, which will deliver a range of operational efficiencies. In the Loan Finance division, the process of providing CBILS loans to businesses affected by Covid-19 and in need of financial support has been successfully introduced and integrated and, in the Vehicle Finance division, new management has renewed the focus on key accounts and business vehicle fleet opportunities. The financial performance of each division is disclosed in the Segmental Reporting note to the financial statements and commented on further in the Chief Financial Officer's Report.

The product divisions are supported by the core business functions of Risk, Finance, Compliance, Human Resources, IT and Marketing, all of which have also evolved to operate across the Group to deliver improved operational efficiency.

A key step towards completion of the Group's evolution will be the rebranding of the business into a single, nationally recognised business. Although this project has been delayed due to the business impact of Covid-19, the project is nearing completion and will be an important element of progress in the current financial year. In addition, further operational integration will include IT improvements, systems developments and digital capability enhancements at the customer interface, in middle-office and back-office processing, all under the "Platform1" project being progressed with the Group's chosen automation and software partners.

In summary, although operations in the fourth quarter of the financial year were necessarily focused on managing the impact of Covid-19 and in particular supporting the considerable increase in collections activity within the Risk function, I am pleased to report this operational progress and the Group's state of readiness for further growth as the UK economy returns to pre-Covid-19 levels of business activity. This is due to the very capable, committed and stable Senior Management Team in the Group, which forms the Operations Board and I thank its members for their support, leadership, resilience and creativity during a challenging year. Further details on the composition of the Operating Board can be found on page 4.

Culture, compliance and governance

The Group's stated purpose continues to be "to grow together" and our core values of being "flexible, fair, trusted and personal" form the basis of a distinct culture, which has matured during the year as the separate entities within the business have continued to operate more closely together as an enlarged group. The successful transition to a group has been particularly evident in recent months through the management of the Covid-19 crisis, during which time the teamwork, dedication and effort of all personnel have been exceptional. The business is customer outcome-led and sets its compliance and governance standards for all its lending and broking activities by reference to the principles and guidelines of the Financial Conduct Authority and the codes of conduct of relevant industry bodies. Further details can be found in the Group Culture and Governance Report on page 23.

Strategic development

The platform for further strategic growth of the Group through to the year 2024 has been re-set to align with an expected recovery in macroeconomic and business conditions. The next phase of growth will consist of adhering to the core principles and policies that form the foundations of our sustainable, robust business model and then adding scale to each of our product divisions in order to deliver further growth in revenue, profits and shareholder returns.

Outlook

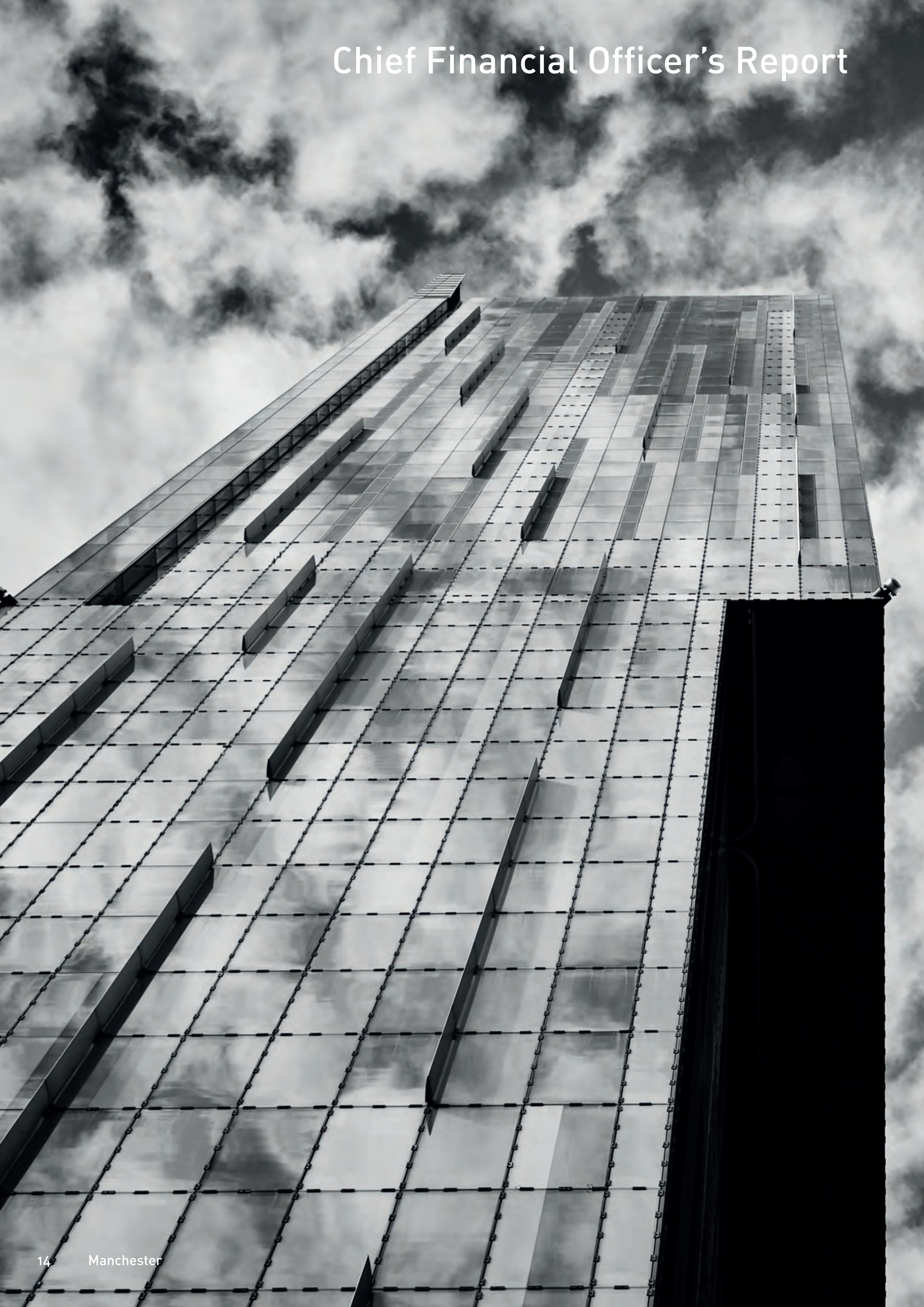
Although the business impact of Covid-19 in the fourth quarter of the financial year was a significant interruption to the Group's continuing track record of growth, this particular period of challenge has served to demonstrate and underline the strength of the Group's market position, multi-product offering, robust operating model, sustainable risk and provisioning policies, liquidity and balance sheet reserves. Whilst substantial uncertainties prevail, in particular the effect on UK businesses of the expiry of the current government-backed financial support schemes, we are confident that the Group is well-placed to benefit from a return to pre-Covid-19 levels of business activity and can return to its planned growth trajectory. Steadily improving trading activity in the first quarter of the new financial year underpins this confidence.

The prevailing substantial uncertainties mean, however, that it would be inappropriate for forward-looking guidance to be provided on the Group's financial performance in the current financial year and, as noted in the Chairman's Statement, any dividend considerations will be further deferred until the Group's financial performance for the first half of the current financial year is known.

Ian Smith
Chief Executive Officer

22 September 2020

Chief Financial Officer's Report



Chief Financial Officer's Report

For the year ended 31 May 2020

Overview

As detailed in both the Chairman's Statement and the Chief Executive's Officer's Review, the Group faced severe external macroeconomic challenges during the financial year. Although the uncertainty of Brexit and, more latterly, the impact of the Covid-19 pandemic led to a set of financial results that were lower than originally planned, the fact that the Group has emerged from these adverse impacts in robust health demonstrates the strength and resilience of the Group.

From an operational perspective, the Group earned revenue of £29.2m and generated £2.0m of profit before tax (PBT) and £3.0m of profit before tax and exceptional items (PBTE). Although less than prior year comparatives (£31.8m, £7.9m and £8.1m respectively) these results are robust given the wider economic issues, especially so if the one-off increase in the credit risk provision during the year of £2.1m to mitigate potential future impacts of Covid-19 is factored in.

The actions taken by the Board from late March 2020 onwards to suspend the dividend, focus on cash conservation and secure a 5 year term loan from our corporate banking partner, amongst others, were all aimed at reducing risk in the business in light of Covid-19. These actions have strengthened the balance sheet and have put the business on a solid cash footing for the foreseeable future.

Review of Income Statement

Revenue decreased in the year by 8% from £31.8m to £29.2m, compared to an increase of 6% in the prior year. This reduction is attributable to the impact of Covid-19 on new business levels in the final quarter of the financial year to 31 May 2020. As detailed in the analysis of revenue by division set out in the Segmental Reporting in Note 3 on page 45, the Asset Finance division is the largest in terms of revenue accounting for 50% (2019: 59%) of the Group's total revenue. The Invoice Finance division contributes 28% (2019: 24%), the Vehicle Finance division 13% (2019: 12%) and the Loan Finance division 9% (2019: 8%).

The lower revenues, combined with the increased credit risk provision, led to gross profit of £15.9m, which is £5.6m, or 26%, lower than the prior year equivalent of £21.5m. Operational expenses were marginally lower year-on-year at £12.8m (2019: £13.3m) as, in light of Covid-19, the Group took certain steps to reduce its cost base to reflect the new economic environment. The full benefit of these actions will be felt in the current financial year rather than the year ended 31 May 2020.

The Group's accounting policy, set out in Note 2 to the financial statements, is to separately identify exceptional items and exclude them from underlying performance measures. This is to help readers of the financial statements by presenting a consistent basis on which to track the core trading performance. The Group incurred a number of exceptional items in the year, which are set out in Note 11 to the financial statements, totalling £0.9m (2019: £0.4m). These include £0.6m of restructuring costs associated with streamlining the Group's cost base as it continues to integrate its operations.

All of the above resulted in PBTE of £3.0m being earned for the financial year. Although this is significantly lower than the prior year comparative of £8.1m, this is almost entirely due to the impact of Covid-19. As mentioned, revenue in the last quarter of the financial year reduced significantly and the credit risk provision was materially increased.

Review of the Statement of Financial Position

In reviewing the Statement of Financial Position, Goodwill, Trade and Other Receivables and Trade and Other Payables are considered to be the most significant items.

Goodwill amounted to £28.2m (2019: £27.8m). Goodwill is rigorously tested annually for impairment. In undertaking the review in the current year, the Directors gave careful consideration to the effect of Covid and its potential impact on the future cashflows of the business. Following this thorough review, it was concluded that no impairment was deemed necessary as all the Group's operating divisions continue to both trade profitably and generate free cash.

Chief Financial Officer's Report (continued)

For the year ended 31 May 2020

Trade and Other Receivables, as detailed in Note 16, amounted to £106.2m at the year end. This is a reduction of 15% or £18.9m compared to the prior year of £125.1m. This reduction is attributable to the impact of Covid-19 which resulted both in significantly lower new businesses levels during the last quarter of the financial year and a number of existing clients taking advantage of government-backed schemes to refinance their debt elsewhere. While this has reduced the risk of future defaults, it has resulted in a smaller lending book at the year end. It is worth reiterating the point made in the Chairman's Statement, however, that the Group was delighted to become an accredited CBILS lender in May 2020 and to begin lending as part of this initiative in June. This presents an exciting opportunity for the Group to increase its lending book again in the short term.

Within the Trade and Other Receivables balance the Group's credit risk provision stood at £5.1m as at the end of the financial year, which was an increase of 112% or £2.7m over the corresponding level at the prior year-end of £2.4m. This provision now represents 4.8% of the Group's year-end net lending portfolio (2019: 1.9% of the year-end net portfolio).

The credit risk provision is determined by a combination of, firstly, a statistical model assessing the likelihood of a deal falling into arrears and, in such cases, the amount that could then reasonably be expected to be subsequently recovered and, secondly, a management overlay applied to factor in any expected future macroeconomic impact. The statistical model element of the credit risk provision has not played a significant part in the increase in the credit risk provision balance, because, during the year, the Group recovered £0.9m from previously fully written-off impaired receivables and incurred £2.0m of new write-offs, resulting in net write-offs in the year of £1.1m, representing 0.9% of the year end gross portfolio. This was a broadly similar performance to previous years (2019: £0.6m representing 0.5% of the year end gross portfolio).

It is more the management overlay which has increased the credit risk provision as, after careful review, the Directors concluded that Covid-19 will, over time, likely have an adverse impact on the viability of some UK SME businesses and, in turn, the recovery of some of the Group's receivables. As mentioned earlier, as a result of this view, the credit risk provision was increased by a further £2.1m adding to the £3.0m derived from the statistical model element of the calculation. As at 21 September 2020 it remains the Directors' view that the credit risk provision is prudently stated and remains a best estimate of the required level of provision given current information available. Further details can be found in Note 30 Credit Risk Provision.

Trade and Other Payables largely relate to operational borrowings the Group has taken on to enable it to then lend on to UK SMEs in the form of Asset Finance, Loan Finance or Invoice Finance. As detailed in Note 20, the balance as at 31 May 2020 has reduced from £97.4m as at the end of May 2019 to £79.7m.

As at 31 May 2020, borrowings from the Group's funding partners amounted to £66.1m, reduced from £89.3m at the prior year-end. This reduction was again due to Covid-19 and the lower levels of lending in the final quarter of the financial year meaning fewer corresponding borrowings were needed.

Each of the lending divisions have their own dedicated funding facilities. Six key wholesale block funding lines, including a £30m facility from British Business Back, provide the lending liquidity for the Asset Finance division. As at the end of May 2020 the Group had funding facilities for this division of £102.8m (2019: £104.3m) of which £47.0m had been drawn (2019: £56.4m), leaving headroom of £55.8m (2019: £47.9m). The Loans division is also funded by wholesale block funding lines plus a dedicated Secured Medium-Term Loan Note Programme. As at the end of May 2020, the Group had funding facilities for this division of £29.0m (2019: £8.7m) of which £7.3m had been drawn (2019: £3.9m), leaving headroom of £21.7m (2019: £4.8m). Crucially, both the Asset Finance and Loans facilities have no non-utilisation fees attached to them and, once drawn, are not impacted by any future changes in the underlying interest rates as the drawn rates are fixed. Finally, the Invoice Finance division is funded by a back-to-back facility from NatWest, the Group's corporate banker. As at the end of May 2020, this amounted to a facility of £42.0m (2019: £37.0m) of which £11.8m was drawn (2019: £25.5m) with headroom of £30.2m (2019: £11.5m).

The Group's funding position is one of its strengths. It is well diversified across a number of lenders with a relatively low blended cost of borrowing of approximately 4% (2019: 4%). The facilities provide considerable flexibility and significant headroom for growth when the wider macroeconomic environment improves. All the Group's funding partners have been supportive throughout the past twelve months and, crucially, have continued to provide funding through the Covid-19 pandemic. This underlines the high regard in which the Group is held by its funding partners and the Board wishes to place on record its appreciation for this support.

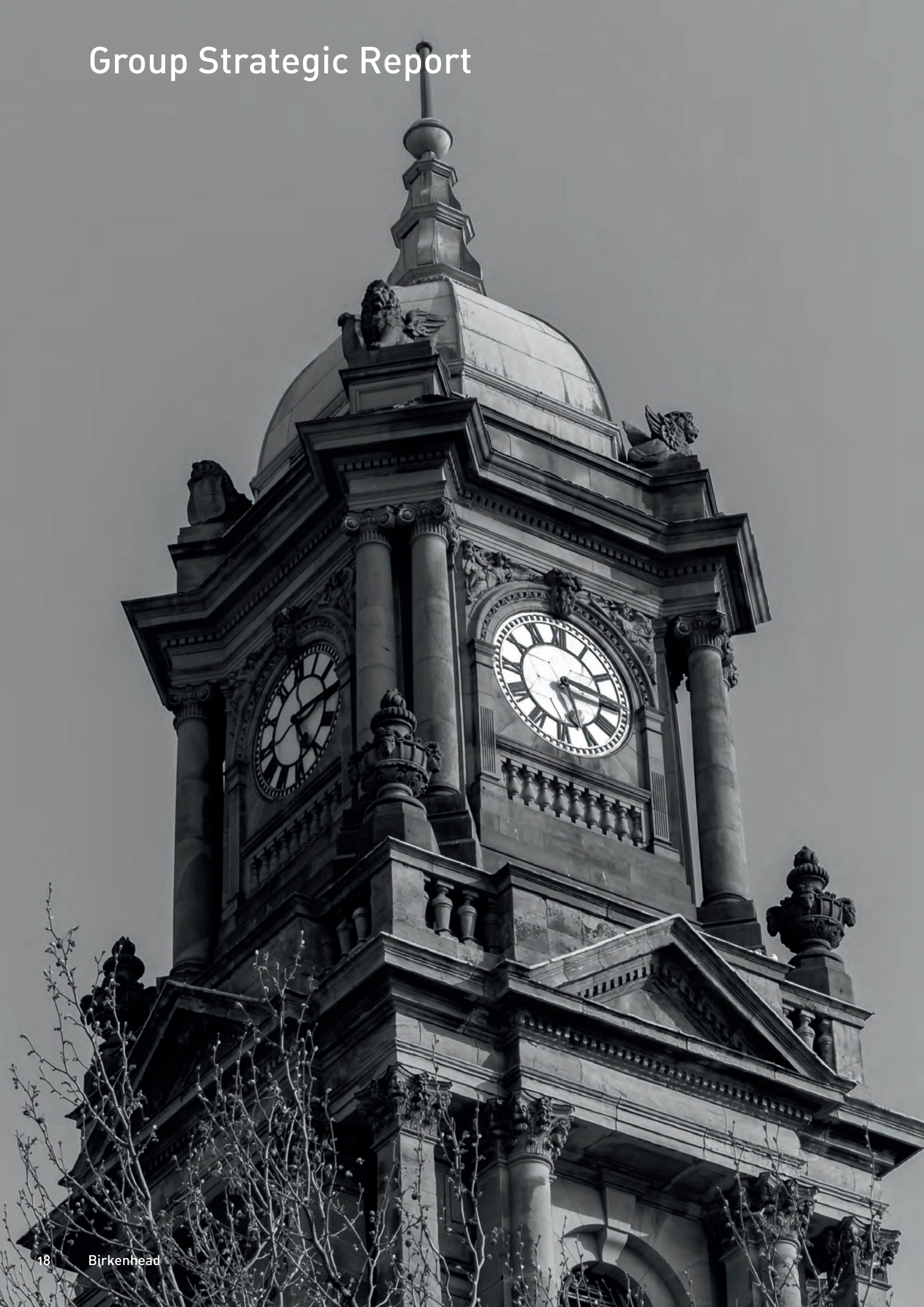
Conclusion

Despite facing a number of significant challenges in 2020, the actions promptly taken by the Board to protect cash, reduce costs and ensure sufficient liquidity to run the business through a potentially prolonged period of disruption, have kept the Group in a robust position. It has a strengthened balance sheet and is operating from a strong cash position. It has prudently increased credit risk provisions to offset any potential future impact of Covid-19 and has secured improved funding facilities for future growth. Whilst the remainder of 2020 will continue to bring an ongoing challenge in the form of the impact on the business of Covid-19, it will also present lending and broking opportunities and the Board is confident the Group is positioned to emerge strongly from this unprecedented period.

James Roberts
Chief Financial Officer

22 September 2020

Group Strategic Report



Group Strategic Report

For the year ended 31 May 2020

Strategic Objectives

The 1pm group was formerly a single-product company relying on broker-introduced business. In recent years it has been transformed into a well-diversified and risk-mitigated alternative finance provider, with multiple introducer channels, now providing the full range of finance products that smaller UK SMEs require.

During the previous financial year, plans were specified for the next phase of the Group's strategic growth through to the financial year ended 31 May 2024. The Group's overall goal is to build on the market position attained in order to become the non-bank, speciality finance provider of choice for UK SME lending. To achieve this goal, the Group's stated strategic objectives were to:

- Continue to add scale through both organic growth and carefully selected acquisitions with a view to building a lending portfolio of approximately £350m by 2024.
- Continue to reduce the cost of borrowing through optimising the size, term, cost and mix of funding facilities
- Increase the amount of new business origination funded on balance sheet while maintaining the flexibility to act as a broker to other lenders
- Invest in marketing, branding, business intelligence, innovation and systems to further enhance our digital capability and the use of 'FinTech'
- Invest in key hires, training and succession
- Exploit the leverage available to the Group from its multi-product offering, cross-selling and operational synergies
- In due course, consider new products and additional territories for further expansion.

Although these stated strategic objectives remain the same, the financial year ended 31 May 2020 was shaped by two external factors outside of the Company's control, namely a generally subdued economy due to Brexit uncertainty, followed by the significant business impact of the Covid-19 pandemic, which abruptly interrupted progress in the fourth quarter of the financial year. Whilst these factors have restricted the Group's pursuit and achievement of its growth objectives, the Board is nonetheless pleased with progress on internal operational development. Comments on each of the strategic objectives are as follows:

Adding scale

The Board has invested in additional sales personnel in each division and has reorganised the Asset Finance and Loans divisions by business introduction channels with a view to increasing organic new business origination for all its products. In addition, the Group succeeded in becoming an accredited lender as part of the government-backed CBILS initiative, which has enabled increased origination of loans to viable UK SMEs affected by the Covid-19 pandemic in the current financial year. As the industry sectors in which the Group operates continue to be fragmented, opportunities to add scale through carefully selected acquisitions will arise and the Board will continue to evaluate such opportunities.

Optimising borrowing facilities

The Group's raw material is cash to lend and its cash management objective is to maintain a strong capital base to support its current operations and planned growth whilst continuing to reduce the cost of capital in order to provide increasing returns for shareholders. The total borrowing facilities now in place provide the headroom the Group requires to meet organic growth targets for the foreseeable future. The Group operates a centralised Treasury function and a policy of sourcing different funding instruments appropriate to each of the financial products it provides. Security is provided to each lender in the form of an assignment of the underlying lease, loan or invoice receivables. As the Group only provides funds to UK SMEs, it neither operates in, nor has significant exposure to, currencies other than sterling.

As at 31 May 2020, the Group's gearing ratio was 3.4 times its Net Tangible Assets, which was comfortably within the most stringent funder covenant of 6.0 times. The Group is not subject to any external regulatory capital requirements.

Group Strategic Report (continued)

For the year ended 31 May 2020

Increase own-book lending whilst maintaining flexibility from broking

Lending on the Group's balance sheet is more profitable than broking over the term of a lease, loan or invoice finance facility. With available headroom in the Group's funding facilities, more new business origination is being funded on balance sheet and will continue to increase, provided market conditions allow our pricing, margin and credit quality to be maintained. It continues to be the Group's policy to broke-on consumer finance deals, such as for bridging and second charge property loans and for all vehicle financing.

Investing in operational capability

The Group will complete the rebranding of each of the Group's trading entities under one nationally recognised name in the current financial year and will continue to enhance digital capability and automation of processes under the "Platform1" IT and Systems project. Progress on these key projects is in line with management expectations as to costs in spite of timing delays during the year ended 31 May 2020.

Investing in key hires, training and succession

The Board is pleased with the addition of skills, capabilities and experience through key hires in each of the product divisions and has concluded succession plans at certain of the Group's subsidiary undertakings where acquisition earn-out objectives have been successfully achieved.

Exploiting leverage and synergies

Following the completion of earn-out arrangements and the reorganisation of sales teams and support functions, progress has been made in delivering integration synergies. This includes the reduction of three sites to two in the Asset Finance division, the central operation of the underwriting function and standardisation of operations in the two Invoice Finance subsidiaries. New business origination from cross-selling continues with a mix of both customer-facing and office-based personnel identifying cross-selling opportunities for follow-up.

New products and territories

The introduction of new products will be actively considered in the current financial year in order to augment growth given that the Group has obtained appropriate regulatory permissions for broking certain additional complementary consumer finance products. Operating in additional geographical territories is not yet under active consideration.

Key performance indicators

The Board and the Senior Management Team regularly review and monitor key metrics in assessing the performance of the Group. Some of these key metrics to help gauge the Group's meaningful progress are detailed below.

Revenue - decreased 8% to £29.2m (prior year £31.8m)
Profit Before Tax - decreased 75% to £2.0m (prior year £7.9m)
Diluted Earnings Per Share - decreased 74% to 1.74p (prior year 6.61p)
New Business Origination - decreased 9% to £147m (prior year £161m)
Number of 'live' accounts - decreased 6% to 19,900 (prior year 21,100)
Funding interest rate - maintained at a blended rate of 4% (prior year 4%)
Net interest margin – maintained at 12% (prior year 12%)

Principal risks and uncertainties

'Principal risks' are defined as a risk or a combination of risks that, given the Group's current position, could seriously affect the performance, future prospects or reputation of the Group. These risks could potentially materially threaten the business model, performance, solvency or liquidity, or prevent the delivery of the strategic objectives. The Board has overall responsibility for ensuring that risk is appropriately managed across the Group and, through the Risk Committee, has established the Group's appetite to risk, approved its structure, methodologies, policies, and management roles and responsibilities.

As well as regular external reviews and audits from the Group's statutory auditors and the quarterly audits from its various funding partners, the Group has numerous internal checks and balances. Initial responsibility rests with the Operating Board which manages the business divisions and functions with line managers responsible for identifying and managing risks arising in their business areas. This is augmented by the Group's central and independent Compliance, Finance and Human Resources functions with responsibility for reporting to the Board. The Group has a Head of Risk who reviews all significant Group credit exposures and a Head of Governance and Compliance who reviews all significant Group operating risks and adherence to regulatory requirements.

The key risks identified and which the Board has reasonable expectation are appropriately mitigated are:

Credit Risk – the risk of default, potential write off, disruption to cash flow and increased recovery costs on a debt that is either not repaid individually or if there is a wider market deterioration. This is mitigated by the Group adopting prescribed lending policies and adhering to strict credit and underwriting criteria specifically tailored to each business area. The Group also has the ability to 'broke-on' business rather than write it on its own book. As such, any market deterioration impact can be reduced by broking-on prospective deals.

Funding Risk – the risk of the Group not being able to meet its current and future financial obligations over time, specifically that funding is not available to meet the Group's growth targets. The Group has funding facilities across Block discounting, the Secured Loan Note programme and back-to-back invoice finance facilities, aggregating to £174m with ample headroom to meet its growth targets for the foreseeable future.

Acquisition Risk – the risk that the Group's acquisition programme does not deliver value, overstretches resource beyond its capacity or has failed to identify problems within the acquired businesses. The Group has paid appropriate consideration for its acquired businesses with post synergy price-to-earnings multiples in the range 5.5 to 6.5 times. It has also spent considerable time and effort to bolster its central resources and infrastructure to assist in integrating and generating synergies from the acquisitions. The Group has conducted thorough and detailed internal and external due diligence on all acquisitions, ensured appropriate warranties, indemnities and lock-in periods are included in the purchase agreements and has purchased well-established businesses with successful and respected management teams.

Regulatory Risk – the risk of legal or regulatory action resulting in fines, penalties and sanctions that could arise from the Group's failure to identify and adhere to regulatory requirements in the UK. In addition, there is the risk that new or enhanced regulations could adversely impact the Group. The Group employs a Head of Governance and Compliance, who reports to the Board and who manages a well-established and independent compliance department with appropriate resources and access to external advisors. The department looks both internally at the Group ensuring its practices are appropriate and externally at future developments to ensure the Group is prepared to adopt any changes in regulation as and when they arise.

Section 172 Statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefits of its members as a whole. In doing this s.172 requires a director to have regard, amongst other matters, to the:

- Likely consequences of any decisions in the long term;
- Interests of the company's employees;
- Need to foster the company's business relationships with suppliers, customers and others;
- Impact of the company's operations on the community and environment;
- Desirability of the company maintaining a reputation for high standards of business conduct; and
- Need to act fairly as between members of the company.

The Board receives regular training on their obligations as Directors from advisors and on an ongoing basis from the Company Secretary. Board Papers are prepared with section 172 duties in mind, to ensure Directors have all the relevant information required to enable them to properly reflect and consider the factors set out above in their decision making. The Board recognises that each decision made will not always result in a positive outcome for each of the Company's stakeholders. However, by having good governance procedures in place for

Group Strategic Report (continued)

For the year ended 31 May 2020

decision making, the Board does aim to make sure that its decisions maintain a high standard of business conduct.

Future Strategy

The Group intends to maintain its focus on lending to UK SMEs, providing all the key finance products they require, whilst broking-on consumer business to other lenders. In pursuing organic growth, the Group will aim to secure further cost-effective wholesale borrowing facilities and will focus on driving other economies of scale and integration benefits from the enlarged scope of its operations and entities.

The alternative finance sector generally and in particular, the leasing, loans and invoice finance segments in the UK, are fragmented, which presents opportunities for further acquisition activity. The Board will continue to consider such opportunities as they arise, and as circumstances allow.

Summary

In spite of interruption to the Group's track record of growth as a result of the business impact of the Covid-19 pandemic, the Directors remain confident of continuing to provide a range of relevant finance solutions to support the UK SME sector as the economy recovers and, therefore, in the Group's pursuit of controlled organic and strategic growth in order to deliver increased shareholder value.

Ian Smith
Chief Executive Officer

22 September 2020

Group Culture and Governance Report

1pm PLC

Group Culture and Governance Report

For the year ended 31 May 2020

During 2019 colleagues throughout the Group defined our overarching purpose as a business which is "to grow together". At the same time, we identified the values by which we aspire to operate on a daily basis, which are to be "trusted, flexible, fair and personal", thereby ensuring we are a customer outcome led business. Throughout 2020, we have worked collectively to further embed our purpose and culture across the Group.

There are five "pillars" which underpin our values, and which set the operational standards by which we put our values into practise. These are described as:

- Our people are our greatest asset
- Our customers are at the centre of everything we do
- Integrity is everything to us
- We know that time is money, so we get things done
- We choose the personal touch

In order to monitor and measure how we put these standards into practice, which we refer to as "living our culture", we have implemented a culture alignment and management process which consists of four key elements, namely:

- A bi-annual appraisal process for all colleagues which includes assessment and evidence of "living our culture"
- A remuneration and incentive structure for customer-facing colleagues that includes an element of deferred commission, earned against achievement and evidence of the cultural behaviours we aspire to demonstrate. Similarly, any discretionary compensation for non-commission remunerated colleagues is also influenced by an assessment of the extent to which they demonstrate the cultural behaviours
- A Talent Leadership Programme (TLP), sponsored by the Chief Executive Officer and actively supported by the Group Senior Management Team, to develop our future leaders
- A culture communication, implementation and feedback loop with representation from across the Group, including focus groups and an annual survey for 360-degree feedback for management from colleagues

In line with our cultural values, the Group places a strong emphasis on ensuring high standards of corporate social responsibility. We have increased environmental awareness across all offices through our participation in the 'cycle to work' scheme and implementation of local targets for the use of recycled and environmentally sustainable materials. In addition, staff regularly organise and participate in charitable fundraising events. A particular focus of the TLP in this coming year will be to implement further Group-wide enhancements to support our Environmental, Social and Governance agenda.

Our purpose, values, culture pillars and monitoring process together constitute our "culture map" which sits alongside our governance processes. Our governance structure includes the 1pm plc Board together with its board committees, plus the Operating Board constituting the heads of the product divisions and Group functions. Our committees are, in turn, supported by local management teams and site-based employees.

In relation to our people, the Group currently has 179 employees, showing a 5% reduction in headcount in comparison to last year. Although not required by law to disclose "people statistics", in line with best practice, the group discloses the following data on the diversity of its employees:

- We have 130 full time equivalent employees compared to 101 a year ago. Although our total headcount has decreased slightly, our offering of full-time employment to employees has increased by 22%
- The current gender ratio is 59% women and 41% men, showing a consistent diversity statistic in comparison with last year's numbers
- 43% of our employees are in the age group category between 16- 30, a 9% decrease from this time last year. However, within this group of employees, we have seen an increase of 57% for those aged between 16- 24, including 2 graduates and 2 apprentices

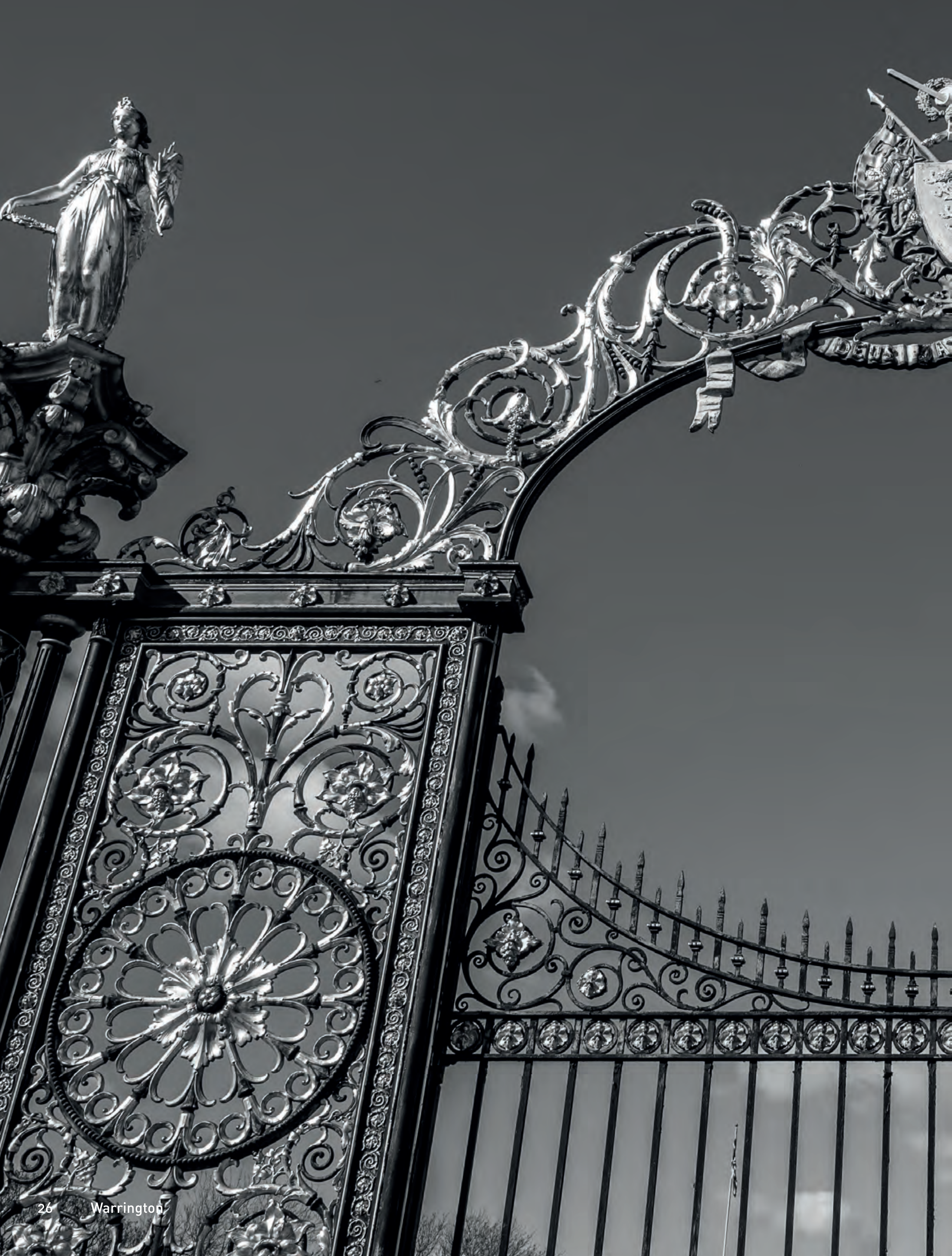
- Gender pay for employees in the upper quartile by value is 50% to men and 50% to women, consistent with last year's figures
- The gender pay for employees in the lower quartile by value is a value distribution of 49% to men and 51% to women, in comparison to last year of 44% value to men and 56% value to women

Our culture and governance processes ensured the Group was well-placed to implement and be compliant with the Senior Managers Certification Regime which came into effect on 9th December 2019. With the exception of our Car Finance 2U credit brokerage business, only 14% of the finance deals written or arranged by the Group are directly regulated consumer finance agreements. Nevertheless, the Group aspires to undertake all its activities to the same high consumer finance standard.

Jennifer Bodey
Head of Compliance and Governance

22 September 2020

Report of the Directors



Report of the Directors

For the year ended 31 May 2020

The Directors present their report with the financial statements of the Company and the Group for the year ended 31 May 2020.

Principal activity

The principal activity of the Group in the year under review was that of providing financial services to UK businesses and consumers.

Dividends

Due to the ongoing impact of Covid-19, the payment of the interim dividend due to be paid on 12 May 2020 was deferred. In adopting a prudent approach and following a recommendation by the Directors, a final dividend for the financial year ended 31 May 2020 has also been deferred until January 2021 when the trading results for the first half of the current financial year will be known.

Events since the end of the year

Information relating to events since the end of the year is given in the notes to the financial statements.

Directors

The Directors stated below have held office during the whole of the period from 1 June 2019 to the date of this report unless otherwise stated.

J D Newman	Non-Executive Chairman
R I Smith	Chief Executive Officer
J M A Roberts	Chief Financial Officer
J P Telling	Non-Executive Director
R Russell	Non-Executive Director

On 30 April 2020 E J Rimmer stepped down as a director of 1pm plc and its associated subsidiaries.

The Directors' interests in the shares of 1pm plc, all of which were beneficial interests, at 31 May 2020 are as follows:

	Ordinary shares of £0.10 each 2020	Ordinary shares of £0.10 each 2019
R Russell	10,977,967	10,557,224
R I Smith	127,667	97,667
J P Telling	222,166	172,166
J D Newman	127,166	127,166
J M A Roberts	38,769	22,000

Directors' insurance and indemnities

Throughout the year the Group has maintained Directors' and Officers' liability insurance for the benefit of the Company, the Directors and its officers. The Directors consider the level of cover appropriate for the business and will remain in place for the foreseeable future.

Financial instruments

The Group's financial instruments comprise cash and liquid resources, including receivables and payables that are also financial instruments that arise directly from operations. The main purpose of the financial instruments is to fund the Group's operations. As a matter of policy, the Group does not trade in financial instruments, nor does it enter into any derivative transactions. Further details on financial instruments are given in Note 29 to these financial statements.

Report of the Directors (continued)

For the year ended 31 May 2020

Significant shareholdings

The following parties held greater than 3% of the issued share capital of 1pm plc as at 31 May 2020:

	Number of shares	% of issued share capital
Cloverleaf 374 Limited	17,796,173	20.00%
Gpim Limited	16,093,461	18.09%
R Russell	10,977,967	12.34%
Hargreaves Lansdown	7,759,887	8.72%
Interactive Investor Trading Limited	3,653,844	4.11%
Lombard Odier Asset Management (Europe) Limited	3,052,895	3.43%
Halifax Share Dealing Limited	2,813,679	3.16%

Statement of directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with IFRS as adopted by the European Union and applicable law. The financial statements must, in accordance with IFRS as adopted by the European Union, present fairly the financial position and performance of the Company; such references in the UK Companies Act 2006 to such financial statements giving a true and fair view are references to their achieving a fair presentation. Under company law directors must not approve the financial statements unless they are satisfied that they give a true and fair view.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRS as adopted by the European Union;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Statement as to disclosure of information to auditors

So far as the Directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Group's auditors are unaware, and each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Auditors

The auditors, Moore, will be proposed for re-appointment at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD:

J M A Roberts
Chief Financial Officer

22 September 2020

Report of the Independent Auditors to the Members of 1pm plc

Opinion

We have audited the financial statements of 1pm plc (the "parent company") and its subsidiaries (the "Group") for the year ended 31 May 2020 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated and Company Statements of Financial Position, Consolidated and Company Statements of Changes in Equity, Consolidated and Company Statements of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 May 2020 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate, or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Report of the Independent Auditors to the Members of 1pm plc

Area of focus	Work performed to address this risk	Conclusion of findings
Recoverability of trade receivables and valuation of the expected credit loss provision The financial statements include net trade receivables of £102.5m, which represents 74% of the Group's total assets. The credit loss provision is £5.1m. We have assessed this area as being of significant risk to the audit due to the significance of these amounts in deriving the Group's results and because of the nature of the IFRS 9 requirements for provisioning, which is an estimate that involves judgements and assumptions.	In assessing the valuation of trade receivables, we performed the following procedures – We tested after balance sheet date cash receipts for a sample of receivables. – We reviewed leases and loans in arrears to consider the adequacy of provisions in place and where payment plans have been entered whether they are being adhered to. – We assessed the appropriateness of the methodology applied to determine the expected credit loss provision with reference to the requirements of IFRS 9. – We have tested the mathematical accuracy of the credit risk provision model and corroborated back to underlying data and supporting documentation. – We have compared historical default rates experienced to the loss rate applied within the credit loss provision model and found them to be in agreement. – We considered the adequacy of the disclosures made in the financial statements including the Group's accounting policy over provisioning. – Considered the size and complexity of management overlays, in order to assess the reasonableness of the adjustments by challenging key assumptions, inspecting the calculation methodology and tracing a sample of the data used back to source data.	We have no matters to communicate in respect of the recoverability of trade receivables or credit loss provisioning.
Revenue recognition and the IT operating systems The IT operating systems used by the Group are central to the integrity of the allocation of income to the appropriate accounting period using the effective interest rate method	In assessing revenue recognition, we performed the following procedures – We tested that a sample of new contracts were being entered into the system appropriately and revenue recognised appropriately. – We reperformed a sample of calculations to test that the operating system was correctly allocating interest to the correct periods. – We considered the adequacy of the disclosures made in the financial statements including the Group's accounting policy over revenue to test that these are consistent with both the conclusions from the audit testing performed as well as in line with IFRS.	We have no matters to communicate in respect of revenue recognition.

Area of focus	Work performed to address this risk	Conclusion of findings
Goodwill Impairment Assessment The Group has goodwill across four cash generating units ("CGUs") at 31 May 2020: £28.2m (2019: £27.8m). The Group's assessment of impairment in accordance with IAS 36 Impairment of Assets is a judgemental process which requires estimating future cash flows based on management's view of future business prospects. Our key audit matter focuses on the robustness of the revenue and profit forecasts. Given the significant level of judgement involved, we identified this key audit matter.	We performed the following procedures in response to the key audit matter identified: – Discussed with management to understand and critically challenge the key underlying assumptions used in the forecasts that form the basis of the Group's impairment review; – Performed an assessment of the accuracy of previously prepared forecasts; this included reviewing trading performance in 2019 to determine management's ability to forecast accurately and understand the reasons for any material variances; – Performed additional sensitivities, to assess the robustness of the model; this involved running combined sensitivities, using increased in discount rates, and modelling the potential impacts of Covid-19; – Performed a model integrity check, including reviewing the model for mathematical and clerical accuracy; – Reviewed the disclosures in the financial statements.	Based on the audit procedures performed we are satisfied that the valuation of goodwill at year end is appropriate.
Going concern During the year ended 31 May 2020 the Covid-19 virus has hit the UK and has had a significant impact on the business of the Group. This impact is not limited to significant uncertainty and an increase in the credit risk provision required as at 31 May 2020. Management have concluded that the Group remains a going concern at the date of signing these financial statements. Due to the potential significance of this event we consider this to be a key audit matter.	In assessing the going concern status of the Group, we have reviewed and considered the following: – Budgets and projections of the Group, we have considered the impact of Covid-19 on these budgets and management assessment of these. – Availability of overdraft and loan facilities to ensure there is sufficient capital should management's forecast not meet expectations.	Our key observations are set out in the conclusions related to going concern section of our audit report.

Our application of materiality

In planning and performing our audit we were influenced by our application of materiality. We set certain quantitative measures and thresholds for materiality, which together with other, qualitative, considerations, helped us to determine the scope of our audit and the nature, timing and extent of the procedures performed. Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £295,000 and £40,000 for the Parent Company. The principal determinant in this assessment was profit before tax, which we consider to be the most relevant benchmark as a key metric for the Directors, investors and users of the 1pm plc financial statements. Our materiality represents 5% of the average of the last three years of this number. We have taken an average of the past 3 years as this provides the most stable and comparable profit metric given the impact of the significant movement in the credit loss provision this year due to Covid-19.

We have agreed with the Audit Committee that we shall report to them any misstatements in excess of £15,000 that we identify through the course of our audit, together with any qualitative matters that warrant reporting.

An overview of the scope of the audit

The scope of the audit for the financial statements has been determined by our application of our materiality to the financial statements in association to the risks of the Group when determining the level of work to be performed. All audit work was performed directly by the audit engagement team with work performed to a statutory audit scope for all trading entities within the Group.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Group Strategic Report or the Report of the Directors.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 28, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs(UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the Financial Reporting Councils website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

M Powell (Senior Statutory Auditor)
for and on behalf of Moore
Chartered Accountant & Statutory Auditor
30 Gay Street
Bath
BA1 2PA

20 September 2020

Consolidated Income Statement

For the year ended 31 May 2020

	Notes	2020 £'000	2019 £'000
CONTINUING OPERATIONS			
Revenue		**29,062**	31,814
Other income		**182**	–
Total revenue	3	**29,244**	31,844
Cost of sales		**(13,319)**	(10,271)
GROSS PROFIT		**15,925**	21,543
Administrative expenses		**(12,793)**	(13,292)
Exceptional items	11	**(909)**	(221)
Share-based payments	27	**(31)**	(3)
OPERATING PROFIT		**2,192**	8,027
Finance costs	5	**(181)**	(218)
Finance income	5	**9**	67
PROFIT BEFORE INCOME TAX	6	**2,020**	7,876
Adjusted earnings before interest, tax, exceptional items and share-based payments		**2,960**	8,100
Exceptional items		**(909)**	(221)
Share-based payments		**(31)**	(3)
PROFIT BEFORE INCOME TAX		**2,020**	7,876
Income tax	7	**(465)**	(1,524)
PROFIT FOR THE YEAR		**1,555**	6,352
Profit attributable to:			
Owners of the parent		**1,555**	6,352
Earnings per share expressed in pence per share			
Basic	10	**1.76**	7.30
Diluted	10	**1.74**	6.61

The notes form part of these financial statements

Consolidated Statement of Comprehensive Income

For the year ended 31 May 2020

	2020 £'000	2019 £'000
PROFIT FOR THE YEAR	1,555	6,352
OTHER COMPREHENSIVE INCOME	–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1,555	6,352
Total comprehensive income attributable to:		
Owners of the parent company	1,555	6,352

The notes form part of these financial statements

1pm PLC

Consolidated Statement of Financial Position

31 May 2020

	Notes	2020 £'000	2019 £'000
ASSETS			
NON-CURRENT ASSETS			
Goodwill	12	**28,241**	27,847
Intangible assets	13	**526**	493
Property, plant and equipment	14	**767**	1,418
Right-of-use property, plant & equipment	14,22	**428**	–
Trade and other receivables	16	**46,157**	50,710
Deferred tax	24	**944**	945
		77,063	81,413
CURRENT ASSETS			
Trade and other receivables	16	**60,038**	74,432
Tax receivable		**185**	–
Cash and cash equivalents	17	**1,304**	1,851
		61,527	76,283
TOTAL ASSETS		**138,590**	157,696
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	18	**8,899**	8,760
Share premium	19	**25,360**	25,134
Employee shares	19	**–**	298
Treasury shares	19	**(310)**	(300)
Retained earnings	19	**21,274**	19,888
TOTAL EQUITY		**55,223**	53,780
LIABILITIES			
NON-CURRENT LIABILITIES			
Trade and other payables	20	**28,639**	29,805
Financial liabilities - borrowings	21	**–**	469
Provisions	23	**–**	801
Lease liability	22	**238**	–
		28,877	31,075
CURRENT LIABILITIES			
Trade and other payables	20	**51,052**	67,563
Financial liabilities - borrowings	21	**2,407**	3,278
Tax payable		**287**	1,309
Provisions	23	**546**	691
Lease liability	22	**198**	–
		54,490	72,841
TOTAL LIABILITIES		**83,367**	103,916
TOTAL EQUITY AND LIABILITIES		**138,590**	157,696

The financial statements were approved and authorised for issue by the Board of Directors on 22 September 2020 and were signed on its behalf by:

J M A Roberts
Chief Financial Officer

Director

The notes form part of these financial statements

Company Statement of Financial Position

31 May 2020

	Notes	2020 £'000	2019 £'000
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	13	**406**	330
Property, plant and equipment		**20**	8
Investments	15	**21,030**	20,530
		21,456	20,868
CURRENT ASSETS			
Trade and other receivables	16	**19,233**	18,388
Cash and cash equivalents	17	**186**	10
		19,419	18,398
TOTAL ASSETS		**40,875**	39,266
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	18	**8,899**	8,760
Share premium	19	**25,360**	25,134
Employee shares	19	**–**	298
Treasury shares	19	**(310)**	(300)
Retained Earnings	19	**329**	–
TOTAL EQUITY		**34,278**	33,892
LIABILITIES			
NON-CURRENT LIABILITIES			
Deferred Tax	24	**136**	111
		136	111
CURRENT LIABILITIES			
Trade and other payables	20	**6,268**	5,302
Financial liabilities - borrowings	21	**17**	–
Provisions	23	**176**	231
		6,461	5,263
TOTAL LIABILITIES		**6,597**	5,374
TOTAL EQUITY AND LIABILITIES		**40,875**	39,266
Company profit for the financial year	8	**498**	806

The financial statements were approved and authorised for issue by the Board of Directors on 22 September 2020 and were signed on its behalf by:

J M A Roberts
Chief Financial Officer

The notes form part of these financial statements

Consolidated Statement of Changes in Equity

For the year ended 31 May 2020

	Called up Share Capital £'000	Retained Earnings £'000	Share Premium £'000	Treasury Shares £'000	Employee Shares £'000	Total Equity £'000
Balance at 1 June 2018	8,621	14,342	24,721	(300)	295	**47,679**
Total comprehensive income	–	6,352	–	–	–	**6,352**
Transactions with owners						
Dividends (Note 9)	–	(806)	–	–	–	**(806)**
Issue of share capital	139	–	413	–	–	**552**
Value of employee services	–	–	–	–	3	**3**
Balance at 31 May 2019	8,760	19,888	25,134	(300)	298	**53,780**
Total comprehensive income	–	1,555	–	–	–	**1,555**
Transactions with owners						
Purchase of treasury shares	–	–	–	(10)	–	**(10)**
Dividends (Note 9)	–	(498)	–	–	–	**(498)**
Issue of share capital	139	–	226	–	–	**365**
Value of employee services	–	–	–	–	31	**31**
Reclassification of Employee Shares	–	329	–	–	(329)	**-**
Balance at 31 May 2020	**8,899**	**21,274**	**25,360**	**(310)**	**-**	**55,223**

The notes form part of these financial statements

Company Statement of Changes in Equity

For the year ended 31 May 2020

	Called up Share Capital £'000	Retained Earnings £'000	Share Premium £'000	Treasury Shares £'000	Employee Shares £'000	Total Equity £'000
Balance at 1 June 2018	8,621	–	24,721	(300)	295	**33,337**
Total comprehensive income	–	806	–	–	–	**806**
Transactions with owners						
Dividends (Note 9)	–	(806)	–	–	–	**(806)**
Issue of share capital	139	–	413	–	–	**552**
Value of employee services	–	–	–	–	3	**3**
Balance at 31 May 2019	8,760	–	25,134	(300)	298	**33,892**
Total comprehensive income	–	498	–	–	–	**498**
Transactions with owners						
Purchase of treasury shares	–	–	–	(10)	–	**(10)**
Dividends (Note 9)	–	(498)	–	–	–	**(498)**
Issue of share capital	139	–	226	–	–	**365**
Value of employee services	–	–	–	–	31	**31**
Reclassification of Employee Shares	–	329	–	–	(329)	**–**
Balance at 31 May 2020	**8,899**	**329**	**25,360**	**(310)**	**–**	**34,278**

The notes form part of these financial statements

Consolidated Statement of Cash Flows

For the year ended 31 May 2020

	Notes	2020 £'000	2019 £'000
Cash generated from operations			
Profit before tax		**2,020**	7,876
Depreciation & amortisation charges		**883**	778
Finance costs		**181**	218
Finance income		**(9)**	(67)
Decrease in inventory		**–**	365
Decrease in trade and other receivables		**18,947**	531
(Decrease) in trade and other payables		**(17,677)**	(5,286)
Movement in other non-cash items		**612**	(1,131)
		4,957	3,284
Cash flows from operating activities			
Interest paid	5	**(181)**	(218)
Tax paid		**(1,488)**	(1,510)
Net cash from operating activities		**3,288**	1,556
Cash flows from investing activities			
Acquisition of subsidiaries		**(500)**	–
Purchase of software, property, plant & equipment		**(375)**	(778)
Contingent consideration paid	23	**(565)**	(533)
Interest received	5	**9**	67
Net cash from investing activities		**(1,431)**	(1,244)
Cash flows from financing activities			
Payment of lease liabilities		**(218)**	–
Loan repayments in year		**(991)**	(1,237)
Loans issued in year		**–**	756
Change in overdrafts (Invoice Finance)		**(349)**	–
Equity dividends paid		**(498)**	(806)
Net cash from financing activities		**(2,056)**	(1,287)
(Decrease)/increase in cash and cash equivalents		**(199)**	(975)
Cash and cash equivalents at beginning of year	28	**331**	1,306
Cash and cash equivalents at end of year	28	**132**	331

The notes form part of these financial statements

Company Statement of Cash Flows

For the year ended 31 May 2020

	Notes	2020 £'000	2019 £'000
Cash generated from operations			
Profit before tax		**524**	920
Dividend income		**–**	(806)
Depreciation & amortisation charges		**127**	106
Finance costs		**35**	69
(Increase) in trade and other receivables		**(845)**	(4,542)
Increase in trade and other payables		**1,238**	4,651
Movement in other non-cash items		**643**	(67)
		1,722	331
Cash flows from operating activities			
Interest paid		**(35)**	(69)
Net cash from operating activities		**1,687**	262
Cash flows from investing activities			
Acquisition of subsidiary		**(500)**	–
Purchase of fixed asset investments		**–**	(8)
Purchase of software, property, plant & equipment		**(217)**	(144)
Contingent consideration paid	23	**(320)**	(216)
Dividends received		**–**	806
Net cash from investing activities		**(1,037)**	438
Cash flows from financing activities			
Purchase of own shares in EBT		**(10)**	–
Loan repayments in period		**–**	(133)
Change in overdraft		**17**	–
Equity dividends paid		**(498)**	(806)
Net cash from financing activities		**(491)**	(939)
Increase/(decrease) in cash and cash equivalents		**159**	(239)
Cash and cash equivalents at beginning of year	28	**10**	249
Cash and cash equivalents at end of year	28	**169**	10

The notes form part of these financial statements

Notes to the Consolidated Financial Statements

For the year ended 31 May 2020

1. STATUTORY INFORMATION

1pm plc is a UK domiciled public company, registered in England and Wales. The Company's registered number and registered office address are stated on page 1.

2. ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

The key judgements made by management in applying the Group's accounting policies that have the most significant effect on these financial statements are in relation to the financed assets, specifically valuation and recognition. Management have selected suitable accounting policies for income recognition (see below) and have made specific provisions against credit risk.

Due to the nature of the Group's trading the Directors do not have any concerns over the key assumptions concerning the future and do not consider there to be any key sources of estimation uncertainty. The Group is cash generative as evidenced by the Statement of Consolidated Cash Flows and has ample headroom in its funding facilities. As such, the Directors are confident that the Group will continue to operate as a going concern.

The functional currency of the parent and subsidiaries is sterling. The presentational currency of the Group is denominated in pounds sterling. The figures have been rounded to the nearest one thousand pounds.

Acquisition of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the business and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired, and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefits arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 respectively
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace the share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date.

Goodwill is measured as the aggregate sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) in excess of the net of the amounts of the identifiable assets acquired and the liabilities assumed at the acquisition date. If, after reassessment, the net of the amounts of the identifiable assets acquired and liabilities assumed at the date of acquisition exceeds the aggregate sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from contingent consideration arrangements, the contingent consideration is measured at its fair value at the date of acquisition and included as part of the consideration transferred in a business combination.

Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period', which cannot exceed one year from the acquisition date, about facts and circumstances that existed at the acquisition date.

2. ACCOUNTING POLICIES (continued)

The subsequent accounting for changes in the fair value of the contingent consideration that do qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 with the corresponding gain or loss being recognised in profit or loss.

Accounting standards issued but not yet effective

There are currently no standards issued which will have a material impact on the Group.

Accounting standards adopted in the year – Leases

These annual results are the first to be reported under the new IFRS 16 'Leases' which addresses the recognition of leases on the balance sheet. The standard eliminates the distinction between operating and finance leases, and results in operating leases being treated as finance leases. The lease liability is initially recognised at the present value of the lease payments which have not yet been made and subsequently measured under the amortised cost method. The initial cost of the right-of-use asset comprises the amount of the initial measurement of the lease liability, lease payments made prior to the lease commencement date, initial direct costs and the estimated costs of removing or dismantling the underlying asset per the conditions of the contract.

Where ownership of the right-of-use asset transfers to the lessee at the end of the lease term, the right-of-use asset is depreciated over the asset's remaining useful life. If ownership of the right-of-use asset does not transfer to the lessee at the end of the lease term, depreciation is charged over the shorter of the useful life of the right-of-use asset and the lease term. As a result, the Group has recognised £0.4m of right-of-use assets and corresponding lease liabilities as at 31 May 2020.

The Group has applied IFRS 16 using the modified retrospective approach; accordingly, the comparative information presented for the period ending May 2019 has not been restated. The Group has applied the practical expedients permitted by IFRS 16 of not recognising right-of-use assets and liabilities for leases with less than 12 months of lease term remaining.

Impact of transition to IFRS 16

	1 June 2019 £'000
Operating lease commitment on 31 May 2019	641
Effect of discounting	(12)
Lease liabilities recognised on 1 June 2019	629

A weighted average rate of 4.0% has been applied reflecting the weighted average borrowing rate at 1 June 2019. This was deemed more appropriate than applying a group cost of borrowing rate as funding costs vary between the subsidiaries depending on the business.

There are four subsidiaries across the Group with right-of-use assets: 1pm (UK) Ltd, Gener8 Finance, Positive Cashflow Finance and Car Finance 2U Ltd. The rates applied by 1pm (UK) Ltd and Car Finance 2U were both 5.0% representing the incremental cost of borrowing at that date, with lower rates at the invoice finance entities of 2.8% at Gener8 Finance and 3.0% at Positive Cashflow Finance reflecting their revolving credit facility rates used for funding working capital. These four rates were applied to the lease liability balance for each respective entity resulting in the 4% blended rate.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the parent Company (1pm plc) and entities controlled by the Company (its subsidiaries) prepared to 31 May each year. Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 May 2020

2. ACCOUNTING POLICIES (continued)

Principal activity and nature of operations

The principal activity in the year under review was that of providing financial products and services to UK businesses.

Revenue recognition

Assets leased to customers on finance leases are recognised in the Consolidated Statement of Financial Position at the amount of the Group's net investment in the lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Loans are recognised when cash is advanced to borrowers. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Loan interest is allocated to accounting periods so as to reflect a constant periodic rate of return on the company's net investment outstanding in respect of the loans.

Invoice finance facilities are recognised when cash is advanced to clients. Interest is allocated to accounting periods so as to reflect a constant periodic rate of return on the company's net investment outstanding in respect of those facilities.

Document, administration and facility fees and secondary rentals are charged and recognised in the period to which they relate.

Other income includes government grants claimed under the Job Retention Scheme.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

A cash generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that it may be impaired. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. On disposal of the relevant cash generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Property, plant and equipment

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Short leasehold	– in accordance with the property lease
Improvements to property	– 20% on cost and in accordance with the property lease
Assets held for rental	– at varying rates on cost
Fixtures and fittings	– 33% on cost and 25% on cost respectively
Motor vehicles	– 25% on cost
Computer equipment	– 25% on cost and 25% on reducing balance

All property, plant and equipment are shown at cost less subsequent depreciation and impairment, if any.

Intangible assets

Amortisation is provided at the following annual rates in order to write off each asset over its estimated useful life, which are considered to be finite.

Computer software	– 25% on cost

Taxation

Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantially enacted by the Statement of Financial Position date.

2. ACCOUNTING POLICIES (continued)

Deferred tax

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are not recognised, however, if they arise from the initial recognition of goodwill, and deferred income tax is not accounted for it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the Statement of Financial Position date and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associated and joint arrangements, except for deferred income tax liability where the reversal of the temporary difference is not in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balance on a net basis.

Impairment of financial assets

Expected credit losses are recognised under IFRS 9 where the credit loss provision is measured and recognised in accordance with the expected credit loss ("ECL") model. The IFRS 9 impairment model introduces a three-stage approach:

- Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses (that is, expected losses arising from the risk of default in the next 12 months) are recognised.
- Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition but are not credit impaired. For these assets' lifetime ECLs (that is, expected losses arising from the risk of default over the life of the financial instrument) are recognised.
- Stage 3 consists of financial assets that are credit impaired, which is when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have occurred. For these assets, lifetime ECLs are also recognised.

The Company uses its historical experience, external indicators and forward-looking information to calculate expected credit losses. For detail of IFRS 9 calculations refer to Note 30.

Provision for specific debts

Provision is made for receivables in arrears after taking into account expected recovery proceeds. All outstanding amounts on receivable contracts passed to collection agents are written off net of the expected subsequent recovery proceeds.

Funding payables and cost of sales

Finance received from funding providers is classified as payables in the Consolidated Statement of Financial Position. Payments to the funding providers contain a capital element which reduces the payable and an interest charge is debited to the cost of sales using the sum of digits method. Due to the relatively short term of the funding payables the Directors are satisfied that this method of apportioning interest is not materially different to the effective interest method

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 May 2020

2. ACCOUNTING POLICIES (continued)

Financial instruments

Financial instruments are classified and accounted for according to the substance of the contractual arrangement, as either financial assets, financial liabilities, or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Employee benefits

(a) Pension obligations:

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Termination benefits:

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Own shares

Own shares consist of treasury shares and shares held within an employee benefit trust, which the company maintains for the granting of shares to applicable employees. Own shares are recognised at cost as a deduction from equity shareholders' funds. Subsequent consideration received for the sale of such shares is also recognised in equity, with any difference between the sale proceeds and the original cost being taken to retained earnings. No gain or loss is recognised in the financial statements on transactions in treasury shares.

Share-based payments

The Group operated a number of equity-settled, share-based compensation plans, under which the entity received services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount expensed is determined by reference to the fair value of the options granted:

- Including any market performance conditions (for example, an entity's share price);
- Excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period);
- Including the impact of any non-vesting conditions (for example, the requirement for employees to save or hold shares for a specific period of time).

At the end of each reporting period, the Group revised its estimates of the number of options that are expected to vest based on the service and non-market vesting conditions. It recognised the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

2. ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and highly liquid interest-bearing securities with maturities of three months or less.

Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material items of income and expense that have been shown separately due to the significance of their nature or amount.

Critical estimates

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

The following are the key areas that involved a higher degree of judgement or complexity which may be more likely to be materially adjusted due to the use of assumptions which turn out to be incorrect.

(a) Goodwill impairment

The Group tests annually whether goodwill has suffered any impairment by applying growth assumptions and assessing the future cash flows which are expected to arise from the continuing operation. All other assets are tested for impairment where there are indicators of impairment. Actual outcomes could vary significantly from these estimates (see Note 12 Goodwill).

(b) Expected credit losses

The Group assesses its best estimate for the expected credit losses (ECL) provision at each reporting date, using trends from actual historical data as well as from forward-looking information. Significant judgement is required in assessing performance, especially with delinquencies and default rates on those products in the performing category, as any changes in rates could impact the provision materially (see Note 30 Credit Risk Provision).

3. SEGMENTAL REPORTING

The Group provides a range of financial services and product offerings throughout the UK. The Group has introduced reporting on a segmental basis as this accurately reflects the four trading divisions, namely: Asset Finance, Vehicle Finance, Loan Finance and Invoice Finance.

The operating segments also reflect its organisational and management structures. The Group reports internally on these segments in order to assess performance and allocate resources. The segments are differentiated by the type of products provided.

The segmental results and comparatives are presented with intergroup charges allocated to each division based on budgeted profits generated. Intergroup expenses are recharged at cost and largely comprise; Marketing, Compliance, IT and Human Resource costs.

The financial year ended 31 May 2020 was significantly impacted by Covid-19 and the Credit Risk Provision (CRP) was materially increased by £2.7m during the period of which £2.1m related to Covid-19. This reflected management's view that Covid-19 could impact the future recovery of debts due. The segmental results are presented after taking into account this increased expected CRP which was heavily allocated towards the asset finance division (Asset Finance: £1.8m, Loan Finance: £0.1m, Invoice Finance: £0.2m). This increase in the CRP materially distorts the true underlying performance of the divisions and should be factored into assessments of the performance of each division.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 May 2020

3. SEGMENTAL REPORTING (continued)

For the year ended 31 May 2020	Asset Finance £'000	Vehicle Finance £'000	Loan Finance £'000	Invoice Finance £'000	TOTAL £'000
CONTINUING OPERATIONS					
Revenue	14,541	3,953	2,484	8,266	**29,244**
Cost of sales	(8,479)	(1,460)	(1,520)	(1,860)	**(13,319)**
GROSS PROFIT	6,062	2,493	964	6,406	**15,925**
Administrative expenses	(5,530)	(2,551)	(834)	(3,878)	**(12,793)**
Exceptional items	(667)	(10)	(66)	(166)	**(909)**
Share-based payments	(31)	–	–	–	**(31)**
OPERATING PROFIT	(166)	(68)	64	2,362	**2,192**
Finance costs	(169)	(4)	–	(8)	**(181)**
Finance income	7	–	–	2	**9**
PROFIT BEFORE INCOME TAX	(328)	(72)	64	2,356	**2,020**
Adjusted earnings before interest, tax, exceptional items and share-based payments	370	(62)	130	2,522	**2,960**
Exceptional items	(667)	(10)	(66)	(166)	**(909)**
Share-based payments	(31)	–	–	–	**(31)**
PROFIT BEFORE INCOME TAX	(328)	(72)	64	2,356	**2,020**

For the year ended 31 May 2019	Asset Finance £'000	Vehicle Finance £'000	Loan Finance £'000	Invoice Finance £'000	TOTAL £'000
CONTINUING OPERATIONS					
Revenue	18,819	2,812	2,536	7,647	**31,814**
Cost of sales	(6,347)	(952)	(1,286)	(1,686)	**(10,271)**
GROSS PROFIT	12,472	1,860	1,250	5,961	**21,543**
Administrative expenses	(7,827)	(1,342)	(994)	(3,129)	**(13,292)**
Exceptional items	(221)	–	–	–	**(221)**
Share-based payments	(3)	–	–	–	**(3)**
OPERATING PROFIT	4,421	518	256	2,832	**8,027**
Finance costs	(218)	–	–	–	**(218)**
Finance income	67	–	–	–	**67**
PROFIT BEFORE INCOME TAX	4,270	518	256	2,832	**7,876**
Adjusted earnings before interest, tax, exceptional items and share-based payments	4,494	518	256	2,832	**8,100**
Exceptional items	(221)	–	–	–	**(221)**
Share-based payments	(3)	–	–	–	**(3)**
PROFIT BEFORE INCOME TAX	4,270	518	256	2,832	**7,876**

4. EMPLOYEES AND DIRECTORS

	2020 £'000	2019 £'000
Wages and salaries	7,923	7,702
Social security costs	861	883
Other pension costs	277	223
	9,061	8,808

The average number of employees during the year was as follows:

	2020	2019
Management	**19**	22
Operational	**165**	167
	184	189

	2020 £'000	2019 £'000
Directors' remuneration excluding compensation for loss of office	**641**	759

The number of directors to whom retirement benefits were accruing was as follows:		
Money purchase schemes	**2**	2
The number of directors who exercised share options during the year was as follows:		
Exercised share options	**0**	0
The number of directors who received share options during the year was as follows:		
Long term incentive schemes	**0**	0

The Directors' aggregate emoluments in respect of qualifying services were:

						2020 £'000	2019 £'000
	Salary	Bonus	Pension	Benefits	Compensation for loss of office	Total	Total
R I Smith	200	–	–	16	–	**216**	216
J M A Roberts	150	–	–	16	–	**166**	166
E J Rimmer	160	–	–	16	224	**400**	191
J D Newman	33	–	–	–	–	**33**	33
R Russell	24	–	–	–	–	**24**	24
J P Telling	26	–	–	–	–	**26**	26
M F Nolan	–	–	–	–	–	**–**	103
	593	**–**	**–**	**48**	**224**	**865**	**759**

The key management personnel are the same as the Directors and therefore disclosure is the same.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 May 2020

5. NET FINANCE COSTS

	2020 £'000	2019 £'000
Finance income:		
Bank account interest	**9**	67
Finance costs:		
Bank loan interest	**61**	93
Other interest payable	**120**	125
	181	218
Net finance costs	**172**	151

6. PROFIT BEFORE INCOME TAX

The profit before income tax is stated after charging:

	2020 £'000	2019 £'000
Depreciation – owned assets	**684**	610
Amortisation – computer software	**199**	168
Net credit loss charge	**3,777**	553
Funding facility interest charges	**3,828**	4,457
Introducer commissions	**3,884**	3,767
Fees payable to the Company's auditor for audit of Company's subsidiaries	**71**	70
Fees payable to the Company's auditor for the Company's annual accounts	**13**	13
Fees payable to the Company's auditor for non-audit services	**23**	–
Fees payable to the Company's auditor as associate on valuation work	**6**	–

7. INCOME TAX

Analysis of tax expense

	2020 £'000	2019 £'000
Current tax	**466**	1,901
Deferred tax	**(1)**	(377)
Total tax expense in Consolidated Income Statement	**465**	1,524

Factors affecting the tax expense

The tax assessed for the year is higher (2019 – higher) than the standard rate of corporation tax in the UK. The difference is explained below:

	2020 £'000	2019 £'000
Profit before income tax	**2,020**	7,876
Profit multiplied by the standard rate of corporation tax in the UK of 19% (2019 – 19%)	**384**	1,496
Effects of:		
Permanent tax differences	**81**	28
Tax expense	**465**	1,524

Corporation tax is calculated at 23.0% (2019: 19.3%) of the estimated assessable profit for the year.

8. PROFIT OF PARENT COMPANY

As permitted by Section 408 of the Companies Act 2006, the Income Statement and Statement of Comprehensive Income of the parent company is not presented as part of these financial statements. The parent company's profit after tax for the financial year was £0.5m (2019 – £0.8m).

9. DIVIDENDS

	2020 £'000	2019 £'000
Ordinary shares of £0.10 each		
Final	**498**	561
Interim	**–**	245
	498	806

The company paid a final dividend in December 2019 of £498,317 being 0.56 pence per Ordinary £0.10 share relating to the financial year ending 31 May 2019.

Due to the impact of Covid-19, the payment of the interim dividend that was due to be paid on 12 May 2020 was and remains deferred. Due to the ongoing impact of Covid-19, the Directors continue to adopt a prudent approach to dividends and any recommendation in respect of a final dividend for the financial year ended 31 May 2020 has also been deferred until January 2021 when the trading results for the first half of the current financial year will be known.

10. EARNINGS PER SHARE

Earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. For diluted earnings per share, the weighted average number of shares is adjusted to assume conversion of all dilutive potential ordinary shares.

2020

	Earnings £'000	Weighted average number of shares	Per-share amount pence
Basic EPS			
Earnings attributable to ordinary shareholders	**1,555**	**88,627,630**	**1.76**
Effect of dilutive securities			
Contingent consideration	**–**	**715,602**	**(0.02)**
Diluted EPS			
Adjusted earnings	**1,555**	**89,343,232**	**1.74**

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 May 2020

10. EARNINGS PER SHARE (continued)

2019

	Earnings £'000	Weighted average number of shares	Per-share amount pence
Basic EPS			
Earnings attributable to ordinary shareholders	6,352	87,048,483	7.30
Effect of dilutive securities			
LTIP options and contingent consideration	–	9,009,945	(0.68)
Diluted EPS			
Adjusted earnings	6,352	96,058,428	6.61

11. EXCEPTIONAL ITEMS

During the year the Group incurred the following exceptional items:

	2020 £'000	2019 £'000
Restructuring	**617**	341
Other	**292**	(120)
	909	221

The exceptional restructuring items relate to reshaping administrative operations to take advantage of Group synergies. This has resulted in redundancy costs of £0.6m. The other exceptional costs relate largely to rebranding and strategic initiatives.

12. GOODWILL

Group	£'000
COST	
At 1 June 2019	27,847
Additions arising from acquisition of subsidiary	394
At 31 May 2020	**28,241**
NET BOOK VALUE	
At 31 May 2020	**28,241**
At 31 May 2019	27,847

The value of goodwill carried on the Balance Sheet is required to be monitored at the "operating segment" level. As detailed in Note 3, management consider there to be four operating segments. Goodwill has therefore been allocated appropriately to four cash generating units ("CGU"). The recoverable amount of each CGU has been determined based on a value-in-use calculation. This calculation uses pre-tax cash flow projections covering an appropriate period. Cash flows beyond a five-year period are extrapolated using a constant growth rate consistent with current market conditions and recent historic growth. The risk-adjusted cash flows are discounted using a researched pre-tax discount rate of 13.5%.

12. GOODWILL (continued)

CGU	2020 Carrying Value £'000	2019 Carrying Value £'000	Headroom* £'000	Total headroom with 1% increase in Discount Rate £'000	Total headroom with 10% reduction in cash flows £'000
Asset Finance	13,378	12,984	9,108	4,637	5,150
Vehicle Finance	978	978	5,316	4,480	4,598
Loan Finance	1,924	1,924	1,347	844	921
Invoice Finance	11,961	11,961	4,708	1,927	2,191
Total	**28,241**	**27,847**	**20,479**	**11,888**	**12,860**

* total recoverable amount which exceeds the carrying amount including goodwill.

A one percentage point increase in the discount rate would decrease the headroom by £8.6m to £11.9m. A reduction in the forecasted cash flows of 10% per annum would reduce the headroom by £7.6m to £12.9m.

13. INTANGIBLE ASSETS

2020

	Group Computer software £'000	Company Computer software £'000
COST		
At 1 June 2019	**744**	**462**
Additions	**232**	**199**
At 31 May 2020	**976**	**661**
AMORTISATION		
At 1 June 2019	**251**	**132**
Charge for year	**199**	**123**
At 31 May 2020	**450**	**255**
NET BOOK VALUE		
At 31 May 2020	**526**	**406**
At 31 May 2019	**493**	**330**

2019

	Group Computer software £'000	Company Computer software £'000
COST		
At 1 June 2018	548	318
Additions	196	144
At 31 May 2019	744	462
AMORTISATION		
At 1 June 2018	83	28
Charge for year	168	104
At 31 May 2019	251	132
NET BOOK VALUE		
At 31 May 2019	493	330
At 31 May 2018	465	290

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 May 2020

14. PROPERTY, PLANT AND EQUIPMENT

Group 2020

	Short leasehold £'000	Improvements to property £'000	Assets held for rental £'000	Fixtures and fittings £'000	Computer equipment £'000	Leasehold Property £'000	Total £'000
COST							
At 1 June 2019	141	187	2,320	351	1,137	–	4,136
Application of IFRS 16	–	–	–	–	–	630	630
Additions	1	–	64	3	75	–	143
Disposals	–	–	(889)	(82)	(7)	–	(978)
At 31 May 2020	142	187	1,495	272	1,205	630	3,931
DEPRECIATION							
At 1 June 2019	53	184	1,219	302	960	–	2,718
Charge for year	15	1	347	20	99	202	684
Disposals	–	–	(576)	(82)	(8)	–	(666)
At 31 May 2020	68	185	990	240	1,051	202	2,736
NET BOOK VALUE							
At 31 May 2020	74	2	505	32	154	428	1,195
At 31 May 2019	101	8	1,101	49	177	–	1,418

Group 2019

	Short leasehold £'000	Improvements to property £'000	Assets held for rental £'000	Fixtures and fittings £'000	Computer equipment £'000	Leasehold Property £'000	Total £'000
COST							
At 1 June 2018	139	189	2,240	334	1,073	–	3,975
Additions	2	–	487	22	71	–	582
Disposals	–	(2)	(407)	(5)	(7)	–	(421)
At 31 May 2019	141	187	2,320	351	1,137	–	4,136
DEPRECIATION							
At 1 June 2018	38	181	1,009	288	847	–	2,363
Charge for year	15	3	454	19	119	–	610
Disposals	–	–	(244)	(5)	(6)	–	(255)
At 31 May 2019	53	184	1,219	302	960	–	2,718
NET BOOK VALUE							
At 31 May 2019	88	3	1,101	49	177	–	1,418
At 31 May 2018	101	8	1,231	46	226	–	1,612

15. INVESTMENTS

Company

	Shares in group undertakings £'000
COST	
At 1 June 2019	20,530
Additions	500
At 31 May 2020	**21,030**
NET BOOK VALUE	
At 31 May 2020	**21,030**
At 31 May 2019	20,530

The Group has directly, or indirectly through other wholly owned subsidiaries in the Group, made investments in the following:

	Investment	Principal activity	Place of incorporation	Proportion of voting equity 2020	Proportion of voting equity 2019
1pm (UK) Limited	Direct	Asset finance	England	**100**	100
Academy Leasing Limited	Direct	Asset finance	England	**100**	100
Bradgate Business Finance Limited	Direct	Asset finance	England	**100**	100
Intelligent Financing Limited	Direct	Loan finance	Wales	**100**	100
Bell Finance Limited	Indirect	Asset finance	England	**100**	100
Gener8 Finance Limited	Indirect	Invoice finance	England	**100**	100
Positive Cashflow Finance Limited	Indirect	Invoice finance	England	**100**	100
Car Finance 2U Limited	Indirect	Vehicle finance	England	**100**	100
Onepm Commercial Finance Ltd	Direct	Holding company	England	**100**	100
Sterling Asset Finance Ltd	Direct	Asset Finance	England	**100**	N/A

Car Finance 2U Limited is 100% held through Academy Leasing Limited. 1pm plc holds 100% of Onepm Commercial Finance Limited which in turn owns 100% of Gener8 Finance Limited and Positive Cashflow Finance Limited.

The Group previously included four other entities which have since been dissolved in order to simplify the group structure. MH Holdings Limited, Gener8 Finance (Holdings) Limited and Positive Cashflow (Holdings) Limited were dissolved in June 2019, and Speakertone Limited was dissolved in September 2019.

Further disclosure is given in Note 32, Business Combinations.

16. TRADE AND OTHER RECEIVABLES

	Group 2020 £'000	Group 2019 £'000	Company 2020 £'000	Company 2019 £'000
Current:				
Trade receivables	**56,363**	70,935	**–**	–
Amounts owed by group undertakings	**–**	–	**19,080**	18,321
Other receivables	**1,848**	1,954	**7**	–
Prepayments and accrued income	**1,827**	1,543	**146**	67
	60,038	74,432	**19,233**	18,388
Non-current:				
Trade receivables	**46,157**	50,710	**–**	–
Aggregate amounts	**106,195**	125,142	**19,233**	18,388

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 May 2020

16. TRADE AND OTHER RECEIVABLES (continued)

Trade receivables represent finance lease, loan and invoice finance receivables stated net of unearned income and credit risk provisions, as follows:

	2020 £'000	2019 £'000
Gross receivables from finance leases, loans and invoice finance	**122,884**	141,662
Unearned future finance income on finance leases, loans and invoice finance	**(15,220)**	(17,603)
Unimpaired trade receivables, net of unearned income	**107,664**	124,059

Of the above gross receivables, £81.2m relates to finance leases (2019: £86.9m) and £13.8m relates to the unearned future income on finance leases (2019: £15.3m).

	2020 £'000	2019 £'000
Unimpaired trade receivables, net of unearned income	**107,664**	124,059
Credit risk provision	**(5,144)**	(2,414)
Net receivables from finance leases, loans and invoice finance	**102,520**	121,645

Interest is charged on trade receivables for lease, hire purchase, loan and invoice finance deals and varies by agreement. The average credit period on these agreements is 41 months.

Before accepting any new customers, the Group uses an external credit scoring system, to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Of the trade receivables balance at the end of the year, no one customer represents more than 0.6% of the total balance outstanding.

Movement in the credit risk provision

	2020 £'000	2019 £'000
Opening balance	**2,414**	2,221
Increase in provision	**2,730**	193
	5,144	2,414

17. CASH AND CASH EQUIVALENTS

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Bank accounts	**1,304**	1,851	**186**	10
	1,304	1,851	**186**	10

18. CALLED UP SHARE CAPITAL

The Articles of Association of the Company state that there is an unlimited authorised Ordinary share capital. Each Ordinary share carries the entitlement to one vote.

On 4 September 2019 the Company issued 1,388,888 Ordinary shares at 26.25 pence per share to the vendors of Positive Cashflow (Holdings) Limited pursuant to the Share Purchase Agreement.

The issued Ordinary share capital of the Company is as follows:

	No. of shares No.	Ordinary shares £'000	Share premium £'000	Total £'000
At 1 June 2019	87,596,428	8,760	25,134	33,894
Shares issued	1,388,888	139	226	365
At 31 May 2020	**88,985,316**	**8,899**	**25,360**	**34,259**

	No. of shares No.	Ordinary shares £'000	Share premium £'000	Total £'000
At 1 June 2018	86,207,540	8,621	24,721	33,342
Shares issued	1,388,888	139	413	552
At 31 May 2019	87,596,428	8,760	25,134	33,894

19. RESERVES

The movements in share capital and reserves are shown in the Consolidated Statement of Changes in Equity and the Company Statement of Changes in Equity.

20. TRADE AND OTHER PAYABLES

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Current:				
Trade payables	**46,605**	64,666	**–**	–
Amounts owed to group undertakings	**–**	–	**5,642**	4,218
Social security and other taxes	**326**	276	**155**	61
Other payables	**2,665**	1,756	**256**	230
VAT	**1,456**	865	**215**	523
	51,052	67,563	**6,268**	5,032
Non-current:				
Trade payables	**28,639**	29,805	**–**	–
	28,639	29,805	**–**	–
Aggregate amounts	**79,691**	97,368	**6,268**	5,032

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 May 2020

20. TRADE AND OTHER PAYABLES (continued)

Trade payables wholly represent funding payables, which are secured on the value of the underlying finance leases, loan agreements and invoice finance advances.

Trade payables comprises commercial loans, invoice finance "back-to-back" funding facilities and numerous funding "blocks" that are repaid by monthly instalments. The length of the repayment term at inception varies from 12 to 60 months and interest rates from 2.1% to 7.5% (2019: 2.5% to 7.5%).

21. FINANCIAL LIABILITIES – BORROWINGS

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Current borrowings at amortised cost				
Bank overdrafts	**1,172**	1,520	**17**	–
Other loans	**1,235**	1,758	**–**	–
	2,407	3,278	**17**	–
Non-current borrowings at amortised cost				
Other loans	**–**	469	**–**	–
Aggregate amounts	**2,407**	3,747	**17**	–

Other loans comprise Loan Notes payable to the vendors of Positive Cashflow Finance Ltd, Car Finance 2U Ltd, a bank loan held by Positive Cashflow Finance Ltd and a loan payable to UK Private Healthcare Ltd (see Note 25).

22. LEASING

a) This note provides information for leases where the Group is a lessee.

The Group leases office premises at several sites in the UK, a small fleet of motor vehicles, and some office equipment on lease hire.

Group

	Leasehold Property £'000	Motor Vehicles £'000	Other £'000	Total £'000
Right-of-use assets				
Balance at 1 June 2019	530	50	50	630
Additions	–	–	–	–
Depreciation charge for the year	162	20	20	202
Balance at 31 May 2020	**368**	**30**	**30**	**428**

Lease Liabilities

	Leasehold Property £'000	Motor Vehicles £'000	Other £'000	2020 Total £'000
Discounted future cash flows				
Not later than one year	161	17	20	198
Later than one year and not later than five years	215	12	11	238
Later than five years	–	–	–	–
Total discounted future cash flows	**376**	**29**	**31**	**436**
Current lease liabilities	161	17	20	198
Non-current lease liabilities	215	12	11	238

22. LEASING (continued)

	Leasehold Property £'000	Motor Vehicles £'000	Other £'000	2020 Total £'000
Amounts recognised in the Income Statement				
Interest on lease liabilities	20	2	3	**25**
Depreciation charge for right-of-use assets	162	20	20	**202**
Lease expense	–	–	–	**–**

	2020 £'000
Amounts recognised in consolidated statement of cash flows	
Total cash outflow for leases	**218**

b) This note provides information for leases where the Group is a lessor. The Group is a lessor providing leases for business to acquire vital equipment to support growth.

Operating lease receivables

The Group has the following future minimum lease receivables under non-cancellable operating leases:

	2020 £'000	2019 £'000
Within 1 year	**364**	377
More than 1 year but less than 5 years	**299**	601
	663	978

Finance lease receivables

The Group has the following net investment in finance leases:

	2020 £'000	2019 £'000
Within 1 year	**22,802**	24,417
More than 1 year but less than 5 years	**43,734**	45,139
	66,536	69,556

Amounts recognised in the Income Statement

	2020 £'000	2019 £'000
Operating lease income	**503**	571
Finance leases – finance income on the net investment in the lease	**9,599**	11,439
	10,102	12,010

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 May 2020

23. PROVISIONS

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Provisions	**546**	1,492	**176**	231

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Analysed as follows				
Current	**546**	691	**176**	231
Non-current	**–**	801	**–**	–
	546	1,492	**176**	231

Provisions comprise contingent acquisition costs recognised on the acquisition of Intelligent Financing Limited, Positive Cashflow (Holdings) Limited and Car Finance 2U Limited.

Movement in provisions

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Balance brought forward	**1,492**	3,121	**231**	1,064
Provisions settled	**(802)**	(1,269)	**(55)**	(583)
Release to profit and loss	**(144)**	(360)	**–**	(250)
Balance carried forward	**546**	1,492	**176**	231

Provisions settled in the year comprise £320,184 cash consideration relating to the acquisition of Intelligent Financing Limited and £244,384 cash consideration relating to the acquisition of Car Finance 2U Limited, resulting in an aggregate of £564,568. A provision of £502,311 relating to the acquisition of Positive Cashflow (Holdings) Limited was also settled in the year, in the form of shares. An additional £264,855 was accrued in the year relating to the acquisition of Intelligent Financing Limited. The total of these movements is £802,024.

24. DEFERRED TAX

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Balance at 1 June	**945**	568	**(111)**	–
Non-current assets timing differences	**(1)**	377	**(25)**	(111)
Balance carried forward	**944**	945	**(136)**	(111)

A deferred tax asset has been recognised on any deductible temporary differences, unused tax losses and unused tax credits.

The deferred tax asset included within the Consolidated Statement of Financial Position relates to non-current asset timing differences and is included in non-current assets.

The utilisation of the deferred tax asset is dependent upon future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences. Based on the Group's financial projections the Directors are satisfied that there is sufficient evidence to recognise the deferred tax asset in full.

25. TRANSACTIONS WITH DIRECTORS

A director of the Company, R Russell, is also a director and 25% shareholder of UK Private Healthcare Ltd ('UKPHL'). At the year end, loans amounting to a total of £600,000 were outstanding to UKPHL (2019: £600,000) and included in current liabilities. Interest is charged at 4% per annum (2019: 4%) and the loan is repayable with 3 months' notice. Interest paid in the year was £33,173 (2019: £24,000) based on a higher balance outstanding for most of the year before £300,000 was repaid prior to the financial year end.

26. EVENTS AFTER THE REPORTING PERIOD

Dividends

The Board is recommending that any decision in respect of a final dividend for the financial year ended 31 May 2020 is deferred until January 2021 when the trading results for the first half of the current financial year will be known.

CBILS Loan

In June 2020, the Group secured a £3.1m CBILS loan from its corporate bankers, NatWest, in order to mitigate the potential further impact on trading of the Covid-19 pandemic. Interest incurred during the first 12 months is payable by the UK Government.

27. SHARE-BASED PAYMENT TRANSACTIONS

The Group seeks to facilitate equity ownership by employees principally through schemes which encourage and assist the purchase of the Company's shares.

During the year the Group operated a Long-Term Incentive Plan ("LTIP") and an Employee Share Option Plan ("ESOP"). The LTIP replaced the previous Executive Share Option Scheme ("ESOS") on 5 June 2018.

LTIP

Under the LTIP 7,900,000 options were granted, exercisable at nil cost, but subject to service-based and market-based share price performance conditions. As at 31 May 2019, 5,658,333 of the granted options had been awarded, subject to the performance conditions, to the Directors and certain senior managers.

In the period ending May 2020, as the market-based share price conditions had not been achieved, the Directors agreed to cancel the scheme. As a result of this cancellation and in accordance with IFRS 2, the full accounting charge for the remainder of the scheme's life, adjusted for employees that had left prior to the date of cancellation, has been recognised, totalling £31,000.

ESOS

As at 31 May 2020, nil (2019: 60,653) options have vested and nil (2019: nil) exercised.

28. CASH AND CASH EQUIVALENTS

The amounts disclosed on the Consolidated Statements of Cash Flows in respect of cash and cash equivalents are in respect of the following amounts in the Consolidated Statement of Financial Position:

Year ended 31 May 2020

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Cash and cash equivalents	**1,304**	1,851	**186**	10
Bank overdrafts	**(1,172)**	(1,520)	**(17)**	–
	132	331	**169**	10

Year ended 31 May 2019

Cash and cash equivalents	**1,851**	2,070	**10**	249
Bank overdrafts	**(1,520)**	(764)	**–**	–
	331	1,306	**10**	249

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 May 2020

29. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise cash and liquid resources, including receivables and payables that are also financial instruments that arise directly from operations. The main purpose of the financial instruments is to fund the Group's operations. As a matter of policy, the Group does not trade in financial instruments, nor does it enter into any derivative transactions. The operations of the Group have principally been financed to date through the funds raised from the placing of shares on the Alternative Investment Market, block funding payables, secured loans notes and back-back facilities for providing invoice finance. The Group has an overdraft facility in place with the Group's corporate bankers totalling £1.0m (2019: £1.0m). In addition to the overdraft facility, the Group secured a £3.1m loan after the financial year end, to fund operational expenses (see Note 26 Events after the Reporting Period).

The Group's main objectives for the management of capital are to ensure there is sufficient cash available to be able to provide finance to customers and to be able to pay debts as they fall due. The Group is not subject to any externally imposed capital requirements from these finance providers. Working capital requirements are constantly monitored including the interest rates from the key providers of finance. The main risks to the Group, and the policies adopted by the Directors to minimise the effects on the Group are as follows:

Credit risk – The Directors believe that credit risk is limited due to lending being spread over a large number of borrowers. No individual receivable poses a significant risk. Group debt collection procedures are continually assessed and robustly undertaken.

Interest rate and liquidity risk – All of the Group's cash balances and short-term deposits are held in such a way that an optimal balance of access to working capital and a competitive rate of interest is achieved. If market interest rates had been higher or lower with all other variables held constant, post-tax profits would not be materially affected.

Categories of financial instruments

	2020 £'000	2019 £'000
Financial assets		
Cash and bank balances	**1,304**	1,851
Net trade receivables	**102,520**	121,645
Financial liabilities		
Net trade payables and borrowings	**77,651**	98,218
Contingent consideration	**546**	1,492

Liquidity and interest risk table

	Within 1 year £'000	More than 1 year but less than 2 years £'000	More than 2 years but less than 5 years £'000	Over 5 years £'000	Total £'000	Net Carrying Value £'000
2020						
Gross trade payables	47,054	15,463	7,338	6,950	**76,805**	75,244
Borrowings	2,494	–	–	–	**2,494**	2,407
2019						
Gross trade payables	64,666	28,927	3,490	–	**97,083**	94,471
Borrowings	2,026	1,846	618	–	**4,490**	3,747

Gross trade payables include future expected interest over the life of the credit agreement.

30. CREDIT RISK PROVISION

Under IFRS 9, impairment provisions are recognised on the inception of any lending based on the probability of expected default and the typical loss arising on defaults, in effect the recognition of impairment on client receivables through an expected loss model.

As at 31 May 2020, the Group reported bad debt impairment provisions of £5.1m (4.8%) significantly increased on the prior year amount of £2.4m (1.9%). This was largely as a result of the Covid-19 pandemic and management's belief that additional provisions are likely be needed to cover potential increases in write-offs as and when the UK Government's various financial support schemes for business end.

Credit Risk Provision	£'000
Opening Credit Risk Provision at 31 May 2019	2,414
Increase in the provision measured at an amount equal to 12 month ECLs	202
Increase in the provision measured at an amount equal to lifetime ECLs	242
Increase in the provision for assets that were credit impaired at the reporting date	2,286
Credit Risk Provision at 31 May 2020	**5,144**

The Group considers the probability of default upon initial recognition of the asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward looking information, especially incorporating the following indicators; internal credit ratings, external credit ratings, actual or expected significant changes in the borrower's circumstances or their related business and financial or economic conditions. In addition to this, macroeconomic forecasts such as changes in interest rates, GDP and inflation, Brexit forecasts and the Financial Leasing Association forecasts are incorporated as part of the Group's internal rating model.

The provision for Stage 1, the performing category, is based on the Expected Credit Loss (ECL) associated with the probability of default on the agreement in the next 12 months, unless there has been a significant increase in credit risk of the lease or loan since origination.

The Group assumes there has been a significant increase in credit risk if outstanding amounts on the agreement exceed 30 days, in line with the presumption in IFRS 9. All agreements in this category fall into Stage 2, whereby a lifetime ECL is recognised.

The Group defines a default as an agreement which has payments owing greater than 90 days. A non-performing agreement is an agreement which is credit impaired and has been passed over to the Group's legal department. These agreements typically have a trigger event which has detrimentally affected future cash flows. For these assets a lifetime ECL is recognised.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. Where an asset has been written off the company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, they are recognised in the Income Statement.

The initial stage of the ECL calculation is done by looking at the probability of default ("PD") multiplied by the Loss Given Default ("LGD"). The PD and LGD are calculated by looking at historical default and write off data. The Company grouped the data into "buckets" that are most reflective of the Group's credit risk areas, namely; Soft Assets, Hard Assets, Loans and Invoice Finance. These are then further analysed by industry so as to isolate and measure any industry specific risks.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 May 2020

30. CREDIT RISK PROVISION (continued)

A summary of the assumptions underpinning the Company's ECL model is as follows:

Stage	Definition of stage	Basis for recognition of expected credit loss provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows.	12 month expected losses
Underperforming	Losses for which there is an increase in credit risk. An increase in credit risk is where outstanding amounts on the agreement exceed 30 days.	Lifetime expected losses
Non-performing	Interest and/or principal repayments are 90 days overdue, and it is therefore assumed that there is a significant increase in credit risk.	Lifetime expected losses

The Group applies an internal risk rating to each category to assess credit losses on a collective basis.

At 31 May 2020	ECL rate	Basis for recognition of ECL provision	Credit loss provision £'000
Performing	1%	12-month ECL	846
Underperforming	6%	Lifetime ECL	535
Non-performing	39%	Lifetime ECL	3,763
Total			**5,144**

At 31 May 2019	ECL rate	Basis for recognition of ECL provision	Credit loss provision £'000
Performing	1%	12-month ECL	660
Underperforming	6%	Lifetime ECL	287
Non-performing	20%	Lifetime ECL	1,467
Total			2,414

The percentages applied above are based on the Group's historical performance as well as the internal and forward-looking information detailed above. The Group's assets are characterised by multiple, small deals which are secured by assets, personal guarantees and debentures. Historically the Group's internal credit and legal departments recover c70%-80% of all non-performing agreements, a performance which therefore accurately reflects the ECLs above.

31. OPERATING LEASE ARRANGEMENTS

Lease payments not recognised as a liability

The Group has elected not to recognise a lease liability for short term leases (leases of expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

The expense relating to payments not included in the measurement of lease liabilities is as follows:

	2020 £'000	2019 £'000
Short term leases (less than 12 months)	**41**	–
Leases of low value assets (less than £5k)	**–**	–
Variable lease payments	**–**	–
Lease expense (IAS 17)	**–**	328
	41	328

As at 31 May 2020 the Group was committed to short term leases amounting to £63,680.

32. BUSINESS COMBINATIONS

Subsidiary acquired

	Principal activity	Date of acquisition	Proportion of voting equity %	Consideration transferred £'000
Sterling Asset Finance Ltd	**Asset Finance**	28.02.2020	**100**	500

Sterling Asset Finance Ltd was acquired to enable the Group to continue the expansion of the Group's activities in the Asset Finance sector.

Assets acquired and liabilities recognised at the date of acquisition

	Sterling Asset Finance Ltd £'000
Current assets	
Trade and other receivables	394
Current liabilities	
Trade and other payables	(288)
	106

Goodwill arising on acquisition

	Sterling Asset Finance Ltd £'000
Consideration transferred	500
Less: fair value of identifiable net assets required	(106)
Goodwill arising on acquisition	**394**

Goodwill arising in the acquisition of Sterling Asset Finance Ltd is mainly attributable to the synergies expected to be achieved in integrating the company into the Group's existing business. In addition, consideration paid for the combination effectively included amounts in relation to the expectation of revenue growth and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on this transaction is not expected to be deductible for tax purposes.

Net cash outflow on acquisition of subsidiary

	2020 £'000
Consideration paid in cash	500
Less: cash and cash equivalents acquired	–
	500

Impact of acquisition on the results of the Group

Included in the revenue for the year is £0.0m and included in the profit is £0.0m, attributable to the additional business generated by Sterling Asset Finance Ltd.

Had this business been acquired on 1 June 2019, the increase in revenue would have been £0.5m and the increase in profit after tax for the year would have been £0.1m. The Directors consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined Group on an annualised basis and to provide a reference point for comparison in future periods.

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